

# Inspector General

## United States

## Department *of* Defense



Improvements Needed on the Fleet and Industrial Supply Center, Sigonella, Ship Maintenance Contracts in Southwest Asia

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## **Acronyms and Abbreviations**

|        |   |
|--------|---|
| A&LM   | Acquisition and Logistics Management                  |
| COR    | Contracting Officer's Representative                  |
| DASN   | Deputy Assistant Secretary of the Navy                |
| DFARS  | Defense Federal Acquisition Regulation Supplement     |
| FAR    | Federal Acquisition Regulation                        |
| FISCSI | Fleet and Industrial Supply Center, Sigonella         |
| FMR    | Financial Management Regulation                       |
| IG     | Inspector General                                     |
| IGCE   | Independent Government Cost Estimate                  |
| J&A    | Justification and Approval                            |
| MARAV  | Master Agreement for Repair and Alteration of Vessels |
| NSSA   | Norfolk Ship Support Activity                         |
| PGI    | Procedures, Guidance, and Information                 |
| QASP   | Quality Assurance Surveillance Plan                   |
| RCD    | Regional Contracts Department                         |
| U.S.C. | United States Code                                    |



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

February 22, 2011

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Improvements Needed on the Fleet and Industrial Supply Center, Sigonella, Ship Maintenance Contracts in Southwest Asia (Report No. D-2011-043)

We are providing this report for your review and comment. This is the fourth in a series of reports on Army and Navy ship maintenance contracts. Navy contracting officials did not provide adequate oversight of 14 contracts, valued at \$35.3 million. In addition, contracting officials did not adequately compete 9 of the 14 contracts or ensure complete price reasonableness determinations were performed for 7 of the 14 contracts and for 36 contract modifications. We considered management comments on a draft of this report from the Assistant Secretary of the Navy for Research, Development, and Acquisition when preparing the final report. The Director, Program Analysis and Business Transformation within the Office of the Assistant Secretary of the Navy for Acquisition and Logistics Management responded for the Military Sealift Fleet Support Command, the Fleet Industrial Supply Center Sigonella, and the Norfolk Ship Support Activity Detachment Bahrain.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The comments from the Assistant Secretary of the Navy for Research, Development, and Acquisition were partially responsive. Therefore, we request that the Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain, provide additional comments on Recommendations B.2 and C.2, and the Commanding Officer, Fleet Industrial Supply Center Sigonella, provide additional comments on Recommendations A.2, D.2.b and D.2.c by March 24, 2011.

If possible, please send a .pdf file containing your comments to [audacm@dodig.mil](mailto:audacm@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9201 (DSN 664-9201).

Richard B. Jolliffe  
Assistant Inspector General  
Acquisition and Contract Management





# Results in Brief: Improvements Needed on the Fleet and Industrial Supply Center, Sigonella, Ship Maintenance Contracts in Southwest Asia

## What We Did

We reviewed 14 contracts, valued at \$35.3 million, for Navy ship maintenance in Bahrain and the United Arab Emirates to determine whether competition, price reasonableness determinations, and quality assurance controls were appropriate and effective. We determined that Fleet and Industrial Supply Center, Sigonella (FISCSI), did not properly manage or administer the contracts in the areas of competition, price reasonableness, and surveillance in accordance with Federal and DoD regulations. This is the fourth in a series of reports on Army and Navy Ship maintenance contracts in Southwest Asia.

## What We Found

FISCSI Detachments Bahrain and Dubai did not adequately compete nine contracts, valued at \$24.3 million, because the contracting officers did not properly justify limiting competition to Master Agreement for Repair and Alteration of Vessels holders. As a result, the contracting officers did not execute the competition for the nine contracts in accordance with the FAR and may have lost the benefits of competitive pricing.

FISCSI Detachments Bahrain and Dubai contracting officers did not ensure that price reasonableness determinations were properly performed for 7 contracts, initially awarded for \$16.2 million, and 36 contract modifications, valued at \$2.7 million. This occurred because the contracting officers did not complete or document price reasonableness determinations. As a result, the contracting officers could not demonstrate that they obtained the best price for \$18.9 million in contracting actions.

FISCSI contracting officers did not provide adequate contract surveillance for all 14 contracts. This occurred because the contracting officers did not properly designate contracting officer's representatives or properly oversee personnel acting in the role of contracting officer's representatives. As a result, the Navy may not have received the quality of ship maintenance and repairs for which it contracted.

FISCSI Detachments Bahrain and Dubai contracting officers incorrectly funded \$4.1 million of FY 2005 funds on contract actions with bona fide needs from FY 2006 because only FY 2005 funds were available. This caused a potential Antideficiency Act violation.

## What We Recommend

Among other actions, we recommend that the Commanding Officer, FISCSI, adhere to competition requirements in the Federal Acquisition Regulation for all future ship maintenance and repair contracts.

We also recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) initiate a preliminary review of the potential Antideficiency Act violation to determine whether a violation occurred.

## Management Comments and Our Response

The Director, Program Analysis and Business Transformation, DASN (A&LM), agreed with all of the recommendations. However, some of the Director's comments were only partially responsive. Therefore, we request additional comments by March 24, 2011. Please see the recommendations table on the back of this page.

## Recommendations Table

| Management   | Recommendations Requiring Comment | No Additional Comments Required     |
|--|-----------------------------------|-------------------------------------|
| Assistant Secretary of the Navy (Financial Management and Comptroller) |                                   | D.1.a and D.1.b                     |
| Director, Military Sealift Fleet Support Command                       |                                   | C.3                                 |
| Commanding Officer, Fleet Industrial Supply Center Sigonella           | A.2, D.2.b and D.2.c              | A.1, A.3, B.1, C.1.a – C.1.c, D.2.a |
| Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain    | B.2, C.2.a and C.2.b              | D.3                                 |

Please provide comments by March 24, 2011.

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# **Introduction**

## **Audit Objectives**

This is the fourth in a series of reports on the Army and Navy ship maintenance contracts for Southwest Asia. The overall objective was to determine whether contracts providing ship maintenance to Army operations in Kuwait and Navy operations in Bahrain and the United Arab Emirates were properly managed and administered. The audit series includes reports on Fleet and Industrial Supply Center, Sigonella (FISCSI), Detachment Bahrain information security; the U.S. Army, Mission and Installation Contracting Command-Fort Eustis; and the U.S. Naval Sea Systems Command. For this report, we reviewed competition, price reasonableness, and contract oversight for 14 contracts administered by the FISCSI Detachment Bahrain and FISCSI Detachment Dubai. See Appendix A for a discussion of our scope and methodology.

We performed this audit pursuant to Public Law 110-417, “The National Defense Authorization Act for Fiscal Year 2009,” section 852, “Comprehensive Audit of Spare Parts Purchases and Depot Overhaul and Maintenance of Equipment for Operations in Iraq and Afghanistan.” Section 852 requires:

thorough audits to identify potential waste, fraud, and abuse in the performance of Department of Defense contracts, subcontracts, and task and delivery orders for (A) depot overhaul and maintenance of equipment for the military in Iraq and Afghanistan; and (B) spare parts for military equipment used in Iraq and Afghanistan.

## **Background on the Fleet and Industrial Supply Center and the Requiring Activities**

The contracting offices for all 14 contracts were at FISCSI Detachments Bahrain and Dubai. FISCSI Detachments Bahrain and Dubai are part of FISCSI Detachment Naples. FISCSI oversees the FISCSI Detachment Naples. The Commander, Fleet and Industrial Supply Centers, reports to the Commander, Naval Supply Systems Command.

### ***Commander, Fleet and Industrial Supply Centers***

Under the Naval Supply Systems Command, the Commander, Fleet and Industrial Supply Centers, functions as a global provider of integrated supply and support services to fleet units and shore activities. The Commander, Fleet and Industrial Supply Centers, is responsible for establishing common policies and procedures for the worldwide network of seven Fleet and Industrial Supply Centers, including the Fleet and Industrial Supply Center, Sigonella, Italy.

### ***Fleet and Industrial Supply Center, Sigonella***

FISCSI is located at the Naval Air Station Sigonella, Italy, and provides logistics, business, and support services to the Navy, Coast Guard, and Military Sealift Command,

as well as other joint forces. FISCSI provides direct logistical support to various locations including Dubai and Jebel Ali within the United Arab Emirates and Bahrain. FISCSI oversees the FISCSI Detachment Naples which has detachments in London, Bahrain, and Dubai to provide contracting support for U.S. Forces throughout Europe, the Mediterranean, Africa, and Southwest Asia.

### ***FISCSI Detachments Bahrain and Dubai***

FISCSI Detachment Bahrain is located at the Naval Support Activity in Manama, Bahrain. FISCSI Detachment Dubai is located in Dubai, United Arab Emirates. The mission of FISCSI Detachments Bahrain and Dubai is to provide fleet support for U.S Navy, Military Sealift, and Coast Guard ships operating in the 5th Fleet area of responsibility as well as base support for naval installations in the Middle East. FISCSI Detachments Bahrain and Dubai report to FISCSI Detachment Naples. The workforce at FISCSI Detachment Bahrain consists of 3 Military Service members, 5 U.S. civilians, and 12 foreign nationals. FISCSI Detachment Bahrain administered 10 contracts in the sample,<sup>1</sup> while FISCSI Detachment Dubai administered 4 contracts in the sample.

## **Requiring Activities**

The three requiring activities for the 14 contracts are the Norfolk Ship Support Activity (NSSA) Detachment Bahrain, the Military Sealift Command, and the Navy Expeditionary Combat Command. NSSA Detachment Bahrain was the requiring activity for 12 of the 14 contracts. The Military Sealift Command and the Navy Expeditionary Combat Command were the requiring activities for one contract each.

### ***Norfolk Ship Support Activity, Detachment Bahrain***

The Naval Sea Systems Command is in charge of the Norfolk Naval Shipyard that oversees the NSSA. The NSSA mission is to provide industrial, engineering, technical, and contracting services for maintenance and modernization of naval ships and crafts. NSSA reports to the Norfolk Naval Shipyard and the Naval Sea Systems Command. The Norfolk Naval Shipyard, located in Portsmouth, Virginia, specializes in repairing, overhauling, and modernizing ships and submarines. NSSA, Detachment Bahrain, is a requiring activity for FISCSI Detachment Bahrain.

### ***Military Sealift Command***

The Military Sealift Command, headquartered in Washington, D.C., delivers supplies and conducts specialized missions across the world's oceans. Within the Military Sealift Command, the Military Sealift Fleet Support Command equips and maintains more than 40 ships owned and operated by the Military Sealift Command.

### ***Navy Expeditionary Combat Command***

The Navy Expeditionary Combat Command operates as a functional command providing the Navy's expeditionary forces with central management, including readiness,

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<sup>1</sup> This is a judgment based sample of 14 FISCSI contracts that we selected based on geographical location and high dollar value.

resources, training, and equipment. Under the Navy Expeditionary Combat Command, the Maritime Expeditionary Security Force performs antiterrorism force protection missions that include harbor and homeland defense, coastal surveillance, and special missions. The Maritime Expeditionary Security Force supports 18 Navy Expeditionary Combat Command patrol coastal boats in Dubai.

### ***Basic Ordering Agreements and Basic Agreements***

Thirteen of the 14 contracts were issued under basic ordering agreements and basic agreements, and one contract was issued as a general contract. The Federal Acquisition Regulation (FAR) states that basic ordering agreements and basic agreements are not contracts and defines them as written negotiated agreements between the contracting office and the contractor that contain the terms and clauses applying to future contracts. Job orders are contracts issued under basic ordering agreements.

### **Internal Controls Not Effective for Competition, Price Reasonableness, Contractor Oversight, and Funding**

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the FISCSI Detachments Bahrain and Dubai related to competition, price reasonableness determinations, funding, and surveillance and acceptance requirements. See the audit findings for detailed information. Implementing recommendations in Findings A, B, C, and D will improve FISCSI’s internal controls. We will provide a copy of the report to the senior officials responsible for internal controls in the Department of the Navy.

# **Finding A. Competition Was Inappropriately Limited**

The FISCSI Detachments Bahrain and Dubai contracting officers did not properly compete nine contracts, valued at \$24.3 million. Specifically, the FISCSI Detachments Bahrain and Dubai contracting officers incorrectly eliminated a contractor from competition in six contracts and did not provide for full and open competition when awarding three other contracts. This occurred because the FISCSI Detachments Bahrain and Dubai contracting officers incorrectly used justification and approvals (J&As) and improperly limited competition to Master Agreement for Repair and Alteration of Vessels (MARAV) holders. As a result, the contracting office did not properly execute the competition for the nine contracts in accordance with FAR requirements and may have lost the benefits of competitive pricing.

## **Criteria**

The FAR provides guidance on competition requirements to allow contracting officers to appropriately perform contract award and make informed procurement decisions. The 14 contracts in the sample were solicited and awarded under two FAR parts: either FAR Part 15, “Contracting by Negotiation,” or FAR Part 13, “Simplified Acquisition Procedures.” Out of the 14 contracts we reviewed, 4 contracts were awarded using FAR part 15, and 10 contracts were awarded using FAR part 13. Acquisitions under FAR part 15 should use FAR Part 6, “Competition Requirements,” to award contracts. However, acquisitions conducted under simplified acquisition procedures are exempt from FAR part 6. See Appendix B for list of contracts and the FAR Part they were solicited and awarded under.

### ***Full and Open Competition***

According to FAR Subpart 6.1, “Full and Open Competition,” contracting officers shall provide for full and open competition through the use of competitive procedure(s) for all acquisitions. When used with respect to a contract action, the FAR defines full and open competition as permitting all responsible sources to compete for the contract. However, FAR Subpart 6.3, “Other Than Full and Open Competition,” allows contracting officers to award sole-source contracts without providing for full and open competition if an exception found in FAR 6.302, “Circumstances Permitting Other Than Full and Open Competition,” applies. FAR 6.301 “Policy,” states that each contract awarded without providing for full and open competition shall contain a reference to the specific authority under which it was awarded.

FAR 6.302-1, “Only one responsible source and no other supplies or services will satisfy agency requirements,” states that full and open competition need not be provided when unique supplies or services are available from only one source or a limited number of sources with unique capabilities. Contracting officers using this authority to award contracts are required to provide a written J&A.

## ***Competition Using Simplified Acquisition Procedures***

FAR Subpart 13.5, “Test Program for Certain Commercial Items,” authorizes the use of simplified acquisition procedures for the acquisition of supplies and services in amounts greater than the simplified acquisition threshold but not exceeding \$5.5 million. Contracting activities must use the simplified acquisition procedures to the maximum extent practicable.

FAR 13.104, “Promoting Competition,” states that the contracting officer must promote competition to the maximum extent practical and obtain supplies and services from the source whose offer is the most advantageous to the Government, while considering the administrative cost of the purchase. It further states that the contracting officer must not solicit quotations based on personal preference or restrict solicitation to suppliers of well-known and widely distributed makes or brands. J&As are required under FAR subpart 13.5 only for sole-source acquisitions.

## ***Master Agreement for Repair and Alteration of Vessels Holders***

Of the 14 contracts reviewed, 13 were issued under a MARAV. Defense Federal Acquisition Regulation Supplement (DFARS) 217.71, “Master Agreement for Repair and Alteration of Vessels,” states that a MARAV is a written instrument of understanding, negotiated between a contracting activity and a contractor that contains contract clauses, terms, and conditions applying to future contracts. A MARAV is not a contract, but contemplates future contracts that will reference the master agreement. The FISCSI Detachment Bahrain officer in charge provided us a list of three MARAV holders: Bahrain Ship Building and Engineering Company, and Arab Ship Building and Repair Yard, both located in Bahrain; and Dubai Drydocks, located in the United Arab Emirates, as of March 29, 2009.

## ***Contracts Valued at \$24.3 Million Improperly Competed***

Of the 14 contracts reviewed, contracting officials did not properly compete 9 contracts, valued at \$24.3 million. Specifically, for six contracts, valued at \$11.5 million, the contracting officer eliminated a contractor from the competition, and for three, valued at \$12.8 million, the contracting officer limited competition to MARAV holders, thereby failing to provide for full and open competition.

### ***Eliminating a Competitor***

The FISCSI Detachment Bahrain contracting officers incorrectly eliminated a contractor from competition during the award of six contracts, valued at \$11.5 million. For four of the contracts (N49400-07-G-A501-7081, N49400-07-G-A501-8038, N49400-07-G-A501-8139, and N49400-07-G-A501-9045), the contracting officer eliminated a contractor from the competition by issuing a J&A. According to the J&As contained in the contract files, the same contractor was eliminated from competing because the cost of lodging and per diem for the ships’ crew was more expensive if that contractor performed the work due to the place of performance. Specifically, the J&As for three of the four contracts cited the FAR exception that permits other than full and open competition when unique supplies or services are available from only one supplier or a limited number of suppliers with unique capabilities and no other type of supplies or services will satisfy

agency requirements. The fourth contract that excluded the contractor from the competition cited the FAR subpart 13.5 exception that permits sole source justifications for acquisitions under the authority of the test program for commercial items. However, as a MARAV holder, the Navy had already determined that the contractor had the unique capabilities to perform the contract and had awarded contracts to the contractor in the past. As a result, the contracting officer's rationale cited in the four J&As to eliminate the contractor did not meet FAR requirements for exceptions to full and open competition.

For the other two contracts, rather than eliminating the contractor through a J&A, the FISCSI Detachment Bahrain contracting officer limited competition to only two competitors and excluded the contractor from the competition for contracts N49400-07-H-A501-5059 and N49400-07-H-A501-5120. The contracting officer used a memorandum from a former FISCSI Detachment Bahrain Legal Counsel to limit competition for contract N49400-07-H-A501-5120.<sup>2</sup> The basis of the June 8, 2004, legal counsel memorandum was that a J&A is not required if a contractor is a MARAV holder. However, the former FISCSI Detachment Bahrain Legal Counsel's opinion was inconsistent and unclear and did not provide a valid basis for its conclusion that a J&A was not required. In response to our recommendation in DoD Inspector General (DoD IG) Report No. D-2010-064, "Army Vessels Maintenance Contracts in Southwest Asia," May 21, 2010, the General Counsel, FISCSI Detachment Bahrain, withdrew the memorandum on March 16, 2010.

FAR part 13 requires the contracting officers to promote competition to the maximum extent practical to obtain supplies and services from the source whose offer is most advantageous to the Government. FAR part 6 requires the contracting officer to provide for full and open competition. As a result, the contracting officers should not have prematurely eliminated the contractor from any of the six competitions but should have considered the additional cost, if any, of doing business with the contractor during the source selection phase of the contract award.

### ***Limiting Competition to Only Master Agreement for Repair and Alteration of Vessels Holders***

FISCSI Detachments Bahrain and Dubai contracting officers did not provide for full and open competition in accordance with FAR part 6 for three contracts (N49400-03-H-A005-6002, N49400-03-H-A005-6007, and N49400-07-G-A600-7001). Documents in the contract file indicated that the contracting officers solicited contract N49400-03-H-A005-5002 to only the three contractors with MARAV agreements. Subsequently, the contracting officers administratively split N49400-03-H-A005-5002 into contracts N49400-03-H-A005-6002 and N49400-03-H-A005-6007 (see Finding D). Soliciting to only MARAV holders did not meet the FAR requirements for full and open competition. However, when providing for other than full and open competition, FAR subpart 6.3

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<sup>2</sup> In DoD Inspector General Report No. D-2010-064, we refer to the memorandum as the Naval Regional Contracting Command Legal Counsel Memorandum. FISCSI Detachment Bahrain was formerly known as Naval Regional Contracting Command.

requires the contracting officer to create a J&A for the contract. The contract file indicated that a J&A was created for N49400-03-H-A005-5002, but the contracting officer was unable to provide the document. As a result, N49400-03-H-A005-6002 and N49400-06-H-A005-6007 did not have a J&A to support the decision to limit competition. The contracting officer solicited these two contracts to only three competitors without sufficient support for limiting the competition; consequently the contracts were not properly competed. The contracting officers should have provided other contractors the opportunity to submit proposals.

The contracting officer used a J&A to limit competition for contract N49400-07-G-A600-7001 to only MARAV holders. The J&A cited FAR 6.302-1, which states that when the supplies or services required by DoD are available from only one or a limited number of responsible sources and no other type of supplies or services will satisfy the agency requirement, full and open competition need not be provided for. However, the justification provided did not justify why competition needed to be limited to MARAV holders. By limiting competition to MARAV holders, the contracting officer did not provide for full and open competition.

Specifically, the FAR and DFARS encourage competition even in situations where contractors are prequalified for contract award such as in the case of MARAV holders. FAR Subpart 9.2, “Qualifications Requirements,” states that if a potential offeror meets or can meet the standards for qualifications (such as MARAV) before the date specified for award of the contract, a potential offeror may not be denied the opportunity to submit an offer for a contract solely because the potential offeror has not been identified.

Further, DFARS 217.71 states that when a requirement arises for the type of work covered by a MARAV agreement, the contracting officer should solicit offers from prospective contractors who previously executed a master agreement, or who have not previously executed a master agreement but possess the necessary qualifications to perform the work, and agree to execute a master agreement before award of a job order. By limiting competition to only MARAV holders, the contracting officer prevented other offerors from demonstrating their ability to accomplish the work and execute a MARAV agreement. *The contracting officer should provide for full and open competition in accordance with FAR part 6 for all future ship maintenance and repair contracts, even when work must be accomplished by a MARAV holder, so that additional sources of competition can be identified and encouraged in accordance with the FAR and DFARS.*

### ***Instruction and Contracting Office Solicitation Practices Limit Competition***

According to the FISCSI Director of Contracting, the list of MARAV holders (which is used to award contracts under both FAR parts 13 and 15) is updated in accordance with Commander Service Force Sixth Fleet/Naval Regional Contracting Center Naples (former name for FISCSI), Instruction 4280.2A, “Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement and Agreement for Boat Repair,” October 24, 2002. Instruction 4280.2A establishes policy, guidelines, and procedures governing the MARAV program. It states that the MARAV program supports the

maximum use of competition but recognizes that the U.S. Navy has a need for shipyards with more sophisticated capability for managing larger ship repair projects.

Instruction 4280.2A does not require the Fleet Industrial Supply Centers, such as FISCSI Detachment Bahrain, to identify potential MARAV contractors. The Instruction states only that the Fleet Industrial Supply Centers may receive requests from prospective MARAV contractors and further provides instructions on how to process the request. FISCSI relies on contractors to self identify as a prospective MARAV contractor instead of initiating market research for contractors capable of MARAV requirements.

FISCSI Detachment Bahrain contracting officers are not required to identify potential MARAV contractors and routinely limit solicitation of contracts to the MARAV holders on the list; consequently, FISCSI Detachment Bahrain contracting officers have created an environment where non-MARAV contractors are unaware of work for which they could bid or that they could become MARAV certified. The FISCSI Detachment Bahrain contracting officers should identify potential MARAV contractors rather than wait for the contractors to request certification to promote competition in accordance with FAR 13.104, “Promoting Competition,” and FAR Subpart 6.1, “Full and Open Competition.” *In order to maximize competition, FISCSI should update Instruction 4280.2A to require Fleet Industrial Supply Centers to conduct market research to identify new potential contractors.*

## **Conclusion**

The contracting officers did not comply with competition requirements during the solicitation of nine contracts, valued at \$24.3 million. The contracting officers limited competition to known MARAV holders and did not seek to identify additional competitors. FISCSI should perform market research to identify other potential MARAV holders in the geographical area and provide full and open competition in accordance with FAR part 6. The contracting officers should not eliminate a contractor from competition prior to issuing the solicitation; instead, the contracting officer should solicit to all MARAV holders when using FAR subpart 13.5 and provide for full and open competition when using FAR part 6. The contracting officers should consider the cost of doing business with each MARAV holder in the source selection process of contract award instead of eliminating competitors before the solicitation.

## ***Management Comments on the Report***

The Director, Program Analysis and Business Transformation, Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management (DASN [A&LM]), stated that the report reference to the “Commanding Officer, NSSA Detachment Bahrain,” should be changed to the “Officer in Charge, NSSA Detachment Bahrain,” and that the report should mention the period covered in the assessment.

## ***Our Response***

We changed Commanding Officer, NSSA Detachment Bahrain to Officer in Charge, NSSA Detachment Bahrain. We reference the audit dates and contract award dates in Appendix A.

## **Recommendations, Management Comments, and Our Response**

**A. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, direct the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai:**

**1. Comply with competition requirements in the Federal Acquisition Regulation Part 6, “Competition Requirements,” and Federal Acquisition Regulation Part 13.5, “Test Program for Certain Commercial Items,” as applicable, for all future ship maintenance and repair contracts even when work must be accomplished by a Master Agreement for Repair and Alteration of Vessels holder, so that additional sources of competition can be identified and encouraged.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that the FISCSI Regional Contracts Department (RCD) conducted internal reviews and determined that personnel in the Bahrain and Dubai offices did not execute competition properly. He also stated that FISCSI RCD concluded that personnel in the offices in Bahrain and Dubai misunderstood DFARS guidance and failed to solicit to all possible ship repair sources. The Director stated that before receiving the draft report, FISCSI RCD, FISCSI Bahrain Office of General Counsel, and NSSA personnel met to discuss competition requirements. The Director further stated that FISCSI RCD is revising the local ship repair and MARAV policy memoranda to clearly explain the appropriate competition requirements and processes for ship repair orders including those under MARAVs. According to the Director, the revised policy memoranda will be issued by March 31, 2011. The Director also stated that internal training on the requirements of the Competition in Contracting Act<sup>3</sup> and the updated policy memoranda will be provided to FISCSI personnel by March 31, 2011, and April 15, 2011, respectively.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. We request that the Commanding Officer, FISCSI RCD, provide a copy of the revised policy memoranda when issued.

**2. Update the Commander, Service Force Sixth Fleet/Naval Regional Contracting Center, Instruction 4280.2A, “Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement and Agreement for Boat Repair,” October 24, 2002, to require Fleet Industrial Supply Centers to conduct market research to identify potential new contractors.**

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<sup>3</sup> The Competition in Contracting Act is implemented by FAR Parts 6 and 13.5.

## ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that the ordering process in place under the 2002 policy did not provide adequate attention to the underlying business basis for actions that were being undertaken; as a result, the market research for each job order consisted of little more than a cut and paste of the same information repeatedly. The Director also stated that on October 1, 2010, an individual from FISCSI RCD Policy Division was temporarily assigned to revise the MARAV job ordering policy, and conduct and document market research. The Director stated that this temporary assignment will be completed by May 31, 2011. According to the Director, a centralized billet whose focus is strategic and business oriented should ensure maximum benefits for the Government, eliminate repetitive paperwork at the working level, ensure that the IGCE is meaningful, and allow for appropriate negotiations and price analysis for each job order. The Director stated that the revision of the MARAV policy memorandum will be completed by March 31, 2011.

## ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), agreed; however, we consider the comments partially responsive. Although FISCSI assigned an individual to revise a MARAV policy memorandum, the Director did not state the full name of the MARAV policy under revision. Therefore, we cannot determine whether FISCSI is updating the Commander, Service Force Sixth Fleet/Naval Regional Contracting Center, Instruction 4280.2A, "Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement and Agreement for Boat Repair," October 24, 2002, as we recommended. We request that the Commanding Officer, FISCSI, provide additional comments in response to the final report to confirm that FISCSI is updating the Commander, Service Force Sixth Fleet/Naval Regional Contracting Center, Instruction 4280.2A.

**3. Perform a review of contracting officers' actions related to limiting competition for contracts N49400-07-G-A501-7081, N49400-07-G-A501-8038, N49400-07-G-A501-8139, and N49400-07-G-A9045, N49400-03-H-A005-6002, N49400-03-H-A005-6007, and N49400-07-G-A600-7001, and as appropriate initiate administrative action.**

## ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that all of the contracts were reviewed in relation to limiting competition. He also stated that the administrative actions in response to Recommendations A.1 and A.2 should prevent inappropriate competition.

## ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

## **Finding B. Improvements Needed for Determining Price Reasonableness**

The contracting officers at FISCSI Detachments Bahrain and Dubai did not adequately evaluate price reasonableness for \$18.9 million in contract actions. Specifically, the contracting officers did not properly determine price reasonableness for 7 contracts, initially awarded for \$16.2 million, and for 36 contract modifications, valued at \$2.7 million, to 9 contracts.<sup>4</sup> This occurred because the contracting officers:

- based price reasonableness determinations on unsupported revised independent Government cost estimates (IGCEs),
- did not document price reasonableness determinations, or
- based price reasonableness determinations on incorrect calculations.

As a result, FISCSI Detachments Bahrain and Dubai contracting officers may not have achieved the best value for \$18.9 million in contracting actions.

### **Criteria**

The FAR provides guidance on price reasonableness requirements for contracting. FAR Part 15, “Contracting by Negotiation,” outlines policies and procedures governing competitive and noncompetitive negotiated acquisitions. FAR 13.106-3, “Award and Documentation,” provides specific requirements for price reasonableness under simplified acquisition procedures.

#### ***Contracting by Negotiation***

FAR part 15 states that contracting officers must purchase supplies and services at fair and reasonable prices. FAR 15.305, “Proposal Evaluation,” states that when contracting on a firm-fixed-price basis, comparison of the proposed prices will satisfy the price analysis requirement. Adequate price competition is obtained when two or more offerors submit priced offers that satisfy the Government’s requirements. When adequate price competition is not achieved, FAR 15.403-3, “Requiring Information Other Than Cost or Pricing Data,” states that the contracting officer is responsible for obtaining information that is adequate for evaluating the reasonableness of the price. The contracting officer must require the offeror to submit information that, at a minimum, includes appropriate information on the prices at which the same or similar item has previously been sold. Contract modifications have no price competition and, as a result, the contracting officer is required to do a cost or price analysis to determine price reasonableness.

In addition, FAR 15.404-1, “Proposal Analysis Techniques,” states that the Government may use various price analysis techniques and procedures to make sure it gets a fair and reasonable price. Some of the techniques include: a comparison of previously proposed prices, a comparison of proposed prices with IGCEs, a comparison of proposed prices with those obtained through market research for the same or similar items, and analysis

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<sup>4</sup> We reviewed 14 contracts, but not all contracts had modifications with deficiencies.

of pricing information provided by the offeror. FAR 15.406-3, “Documenting the Negotiation,” states that the contracting officer must document in the contract file the principal elements of the negotiated agreement, including the fair and reasonable pricing determination. The documentation must include an explanation of any significant differences between the two positions.

### ***Simplified Acquisition Procedures***

As part of the simplified acquisition procedures, FAR 13.106-3 requires that before making an award, the contracting officer must determine that the proposed price is fair and reasonable. In addition, it requires that whenever possible, the contracting officer must base price reasonableness on competitive quotations or offers. If only one response is received, the contracting officer must include a statement of price reasonableness in the contract file. Specifically, FAR 13.106-3, states that the contracting officer may base the statement of price reasonableness on:

- (i) Market research;
- (ii) Comparison of the proposed price with prices found reasonable on previous purchases;
- (iii) Current price lists, catalogs, or advertisements. However, inclusion of a price in a price list, catalog, or advertisement does not, in and of itself, establish fairness and reasonableness of the price;
- (iv) A comparison with similar items in a related industry;
- (v) The contracting officer’s personal knowledge of the item being purchased;
- (vi) Comparison to an independent Government estimate; or
- (vii) Any other reasonable basis.

Contract modifications are not competed; they are negotiations between the contracting officer and the contractor. Therefore, the contracting officer must include a statement of price reasonableness in the contract file.

### ***Inadequate Price Reasonableness for Seven Contracts***

Contracting officers at FISCSI Detachments Bahrain and Dubai did not adequately determine price reasonableness for 7 contracts, valued at \$16.2 million. Specifically, for 7 of the 14 contracts we reviewed, the contracting officer awarded:

- 4 contracts for \$7.9 million but did not properly determine price reasonableness and
- 3 contracts for \$8.3 million but did not document their price reasonableness determinations and include price reasonableness statements.

### ***Contracting Officers Improperly Determined Price Reasonableness***

We reviewed the contract files for all 14 contracts, initially awarded for \$27.5 million, with a final contract value of \$35.3 million including modifications. We found that for 4 contracts (N49400-07-H-A501-5059, N49400-07-G-A501-7081, N49400-07-G-A501-8038, and N49400-07-G-A600-7001), valued at \$7.9 million, the contracting officer received only one proposal. When only one proposal is received, the FAR requires the contracting officer to include a statement of price reasonableness in the contract file. In

addition, the FAR requires that when adequate price competition is not achieved, the contracting officer must evaluate the reasonableness of the prices. The contracting officer determined price reasonableness by comparing the contractor's proposed prices with an IGCE for all 4 contracts.

*The contracting officers could not provide any substantive documentation explaining why the initial IGCEs were incorrect or why the requiring activity incorrectly determined the scope of the contract.*

We reviewed the comparison between the contractor's proposed prices and the IGCE and found that the contracting officers requested a revision of the original IGCEs. In all four contracts, the initial IGCE varied from the contractor proposal, in one instance by as much as 72 percent (see Table 1). According to contract documentation, the contracting officers requested

the surveyors adjust the IGCEs because the IGCEs, when compared to the contractor's proposed price, were either too high or too low. According to contract documentation, the revised estimates were based on the actual scope of work or were changed to reflect the contractor proposed prices. The contracting officers could not provide any substantive documentation explaining why the initial IGCEs were incorrect or why the requiring activity incorrectly determined the scope of the contract. In most of the cases, the revised IGCE reduced the gap between the initial IGCE and the contractor's proposal. Based on this reduction, the contracting officers then determined the contractor's price to be fair and reasonable.

Also we were unable to determine what methodology the NSSA Detachment Bahrain surveyors used to revise the IGCE because of the lack of documentation. Therefore, we could not assess the accuracy of the surveyor's revision process. The contracting officers should have required the NSSA Detachment Bahrain surveyors to adequately document the basis for all elements of the initial IGCE and any changes to the IGCE (see Table 1).

**Table 1. Initial Contracts With Inadequate Price Reasonableness Determinations**

| Contract     | Initial IGCE       | Contractor's Original Bid | Difference Bid vs. Initial IGCE | Revised IGCE       | Awarded Value      | Difference Awarded Value vs. Revised IGCE |
|--------------|--------------------|---------------------------|---------------------------------|--------------------|--------------------|---|
| 7081         | \$828,740          | \$668,894                 | -19%                            | \$672,738          | \$668,894          | -1%                                       |
| 8038         | 886,894            | 1,383,643                 | 56%                             | 1,421,663          | 1,383,643          | -3%                                       |
| 7001         | 2,499,644          | 4,295,155                 | 72%                             | 3,393,912          | 4,295,155          | 27%                                       |
| 5059         | 1,400,000          | 1,544,983                 | 10%                             | 1,719,783          | 1,574,722          | -8%                                       |
| <b>Total</b> | <b>\$5,615,278</b> | <b>\$7,892,675</b>        | <b>40%</b>                      | <b>\$7,208,096</b> | <b>\$7,922,414</b> | <b>10%</b>                                |

The contracting officers improperly determined price reasonableness for the 4 contracts because they based price reasonableness on IGCEs that were insufficiently documented by the surveyors. In addition, after the contracting officers requested that the surveyors change the IGCEs, the revised IGCEs better matched the contractor-proposed prices as shown in Table 1. The contracting officer then used the revised IGCEs to justify that the contractor-proposed prices were reasonable. As a result, the contracting officers should

have used a different price reasonableness method to properly determine if contract prices were reasonable.

### ***Contracting Officers Did Not Document Price Reasonableness***

We were unable to determine the basis for the contracting officers' price reasonableness determination for three contracts (N49400-03-H-A005-6002, N49400-03-H-A005-6007, and N49400-04-H-A501-5120), valued at \$8.3 million. The contract files did not contain documented price reasonableness determinations. Contracts N49400-03-H-A005-6002 and N49400-03-H-A005-6007 were initially awarded under one contract, but were later split (See Finding D). The contract files for both contracts contained a price comparison that compared the contractor's proposals to the IGCE. However, the comparison shows a contractor's proposal of \$5,479,545 that did not match the amount of the final bid or the contract awarded value of \$6,985,413.

In addition, the contract file for N49400-03-H-A005-5002 contained another contractor's bid for \$6,526,503, which was \$458,910 less than the contract award. The contract file did not contain the FAR-required documentation (See Finding D), including the price negotiation memorandum and price reasonableness determination. Also, the contract solicitation did not list the evaluation factors for award, as required by the FAR.

However, according to notes from a meeting between the contracting officer and the losing contractor, the contracting officer stated that price was the determining factor. Because of the lack of documentation, we were unable to determine why the contracting officer awarded the contract to the contractor with the highest bid amount, which also exceeded the IGCE amount, or how the awarded amount was determined to be fair and reasonable.

For contract N49400-04-H-A501-5120, the contracting officer created a spreadsheet to compare the IGCE with the contractor's proposed prices but did not document the price reasonableness determination or explain why they awarded the contract for an amount exceeding the IGCE. Without having a documented price reasonableness determination including a reliable price comparison, we were unable to determine whether a reasonable price was achieved for the three contracts (see Table 2).

**Table 2. Initial Contract Award With No Price Reasonableness Determinations**

| <b>Contract</b> | <b>IGCE</b>        | <b>Contractor's Final Bid</b> | <b>Awarded Value*</b> | <b>Difference Awarded Value vs. Initial IGCE</b> |
|-----------------|--------------------|-------------------------------|-----------------------|--|
| 6002            | \$2,949,077        | \$3,863,670                   | \$3,477,033           | 18%  |
| 6007            | 2,981,031          | 3,898,200                     | 3,508,380             | 18%  |
| 5120            | 1,364,730          | 1,335,147                     | 1,335,147             | -2%  |
| <b>Total</b>    | <b>\$7,294,838</b> | <b>\$9,097,017</b>            | <b>\$8,320,560</b>    | <b>14%</b>                                       |

\*Contracts N49400-03-H-A005-6002 and N49400-03-H-A005-6007 included a line item that reduced the overall proposed price by 10 percent. Therefore, the 10 percent difference between the contractors' bid and the awarded value is documented in the contract.

## Deficiencies in Independent Government Cost Estimates

In addition to the four contracts, valued at \$7.9 million, that had inadequate price reasonableness determinations because the IGCEs were revised without documenting the basis for the revision, three other contracts (N49400-07-G-A501-8139, N49400-07-G-A501-J001, and N49400-07-H-A501-6098) had IGCE deficiencies. For two of the contracts, the contracting officer requested the NSSA surveyor to revise the IGCEs, and the third contract included two different IGCEs but did not contain any documentation explaining the two estimates. We did not include these 3 contracts with the 7 of 14 contracts that had inadequate price reasonableness because even though the contracting officers requested a revision of the IGCEs, the price reasonableness determinations were based on adequate competition in addition to a comparison of the IGCE and the contractors' proposed prices. The IGCE is one of the tools that contracting officers can use to establish the Government pre-negotiation objectives, perform price analysis, or determine the reasonableness of the prices submitted by the offerors.

However, we noticed that FISCSI Detachments Bahrain and Dubai contracting officers consistently requested the surveyors to change the IGCEs. This generally resulted in revised IGCEs that better matched the contractors' proposed costs (see Table 3). However, the contracting officers rarely requested the contractors to change their proposals. For contracts N49400-07-G-A501-8139 and N49400-07-G-A501-J001, the contracting officer requested the surveyor to recalculate the IGCE before determining price reasonableness. The revision of the IGCE increased the amount and was used by the contracting officer to determine price reasonableness. Yet, we found no evidence that the contracting officer requested the contractors to reconsider their proposed prices. For contract N49400-07-H-A501-6098, the contracting officer used more than one IGCE to determine price reasonableness. We found two IGCEs that were compared to the contractor's proposals, but the contracting officer only referenced one of the IGCEs in the price reasonableness determination statement. In addition, the contracting officer did not document why there were two different IGCEs. We determined that the contracting officer used a revised IGCE for the price reasonableness determination.

**Table 3. Contracts With Independent Government Cost Estimates Deficiencies**

| Contract     | Initial IGCE        | Revised IGCE        | Contractor's Final Bid | Awarded Value       | Contractor's Bid vs. Initial IGCE | Contractor's Bid vs. Revised IGCE |
|--------------|---------------------|---------------------|------------------------|---------------------|-----------------------------------|-----------------------------------|
| 7001         | \$2,499,644         | \$3,393,912         | \$4,295,155            | \$4,295,155         | 72% <sup>1</sup>                  | 27% <sup>2</sup>                  |
| 7081         | 828,740             | 672,738             | 668,894                | 668,894             | -19%                              | -1%                               |
| 8038         | 886,894             | 1,421,663           | 1,383,643              | 1,383,643           | 56%                               | -3%                               |
| 8139         | 2,121,604           | 2,570,290           | 2,430,782              | 2,430,782           | 15%                               | -5%                               |
| J001         | 725,869             | 812,730             | 608,966                | 608,966             | -16%                              | -25%                              |
| 5059         | 1,400,000           | 1,719,783           | 1,574,722              | 1,574,722           | 12%                               | -8%                               |
| 6098         | 2,581,233           | 2,236,285           | 3,016,167              | 3,016,167           | 17%                               | 35%                               |
| <b>Total</b> | <b>\$11,043,984</b> | <b>\$12,827,401</b> | <b>\$13,978,329</b>    | <b>\$13,978,329</b> | <b>27%</b>                        | <b>9%</b>                         |

<sup>1</sup>(4,295,155 – 2,499,644)/2,499,644 = 72%

<sup>2</sup>(4,295,155 – 3,393,912)/3,393,912 = 27%

For 7 of the 14 contracts (see Table 3), the contracting officers requested a revision of the IGCEs or used more than one IGCE during price reasonableness determinations.

According to the FISCSI Detachment Bahrain Deputy Officer in Charge, changes sometimes needed to be made to IGCEs because the contractors were so dissimilar and, as a result, it was difficult for the surveyors to develop good IGCEs. This practice diluted the IGCEs usefulness as a negotiation and comparison tool. Two contracts had contractor proposals that were less than the initial IGCE; however, 5 other contracts had contractor proposals that were higher than the initial IGCE and differed significantly from the proposed prices. According to FAR part 15, the contracting officer may use an IGCE as one of the tools to establish the Government's initial negotiation position. For contracts N49400-07-G-A501-8038 and N49400-07-G-A600-7001, the contracting officer requested a revision of the IGCE but awarded the contracts for the contractors' proposed amount. As a result, the IGCE had no impact on the negotiation, even when the surveyor revised the IGCE. At a minimum, the price reasonableness would be questionable for two contracts when the award price differed from the revised IGCE amounts by 27 and 35 percent. All seven contracts were awarded for the contractors' proposed amount.

## Inadequate Price Reasonableness for 36 Contract Modifications

The 14 contracts had a total of 158 modifications. However, only 138 modifications required price reasonableness determinations because they changed the price of the work on the contracts. The contracting officers did not perform price reasonableness determinations for 36 of the modifications, valued at \$2.7 million. Specifically, the contracting officer awarded:

- 8 modifications for \$977,293 with inadequate price reasonableness determinations,

- 10 modifications for \$643,446 without a documented price reasonableness determination,
- 3 modifications for \$157,781 without sufficient price reasonableness determination documentation,
- 12 modifications for \$790,680 that considerably exceeded the IGCE but did not document the price reasonableness determination, and
- 3 modifications for \$117,544 that mistakenly based the price reasonableness determination on incorrect calculations.

**Table 4. Contract Modifications With Inadequate Price Reasonableness Determinations**

| Contract <sup>1</sup> | Modification Number | Initial IGCE     | Contractor's Bid | Difference Bid vs. Initial IGCE | Revised IGCE     | Difference Bid vs. Revised IGCE | Awarded Value    |
|-----------------------|---------------------|------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|
| 5059                  | 8                   | \$32,536         | \$64,542         | 98% <sup>2</sup>                | \$65,678         | -2% <sup>3</sup>                | \$64,542         |
| 8139                  | 1                   | 117,172          | 95,128           | -19%                            | 101,208          | -6%                             | 95,128           |
| 8139                  | 2                   | 19,459           | 23,731           | 22%                             | 25,822           | -8%                             | 23,731           |
| 8139                  | 4                   | 83,833           | 106,757          | 27%                             | 104,750          | 2%                              | 106,757          |
| 8139                  | 5                   | 130,149          | 133,786          | 3%                              | 129,217          | 4%                              | 133,786          |
| 8139                  | 6                   | 64,066           | 123,213          | 92%                             | 122,990          | 0%                              | 123,213          |
| 8139                  | 7                   | 67,408           | 169,658          | 152%                            | 170,908          | -1%                             | 169,658          |
| 8139                  | 8                   | 85,349           | 260,478          | 205%                            | 253,349          | 3%                              | 260,478          |
| <b>Total</b>          | <b>8</b>            | <b>\$599,972</b> | <b>\$977,293</b> | <b>63%</b>                      | <b>\$973,922</b> | <b>0%</b>                       | <b>\$977,293</b> |

<sup>1</sup>Modification 3 for contract N49400-07-G-A501-8139 did not have any price reasonableness issues.

<sup>2</sup>(64,542 – 32,536)/32,536 = 98%

<sup>3</sup>(64,542 – 65,678)/65,678 = -2%

We reviewed the contract files for all 138 contract modifications, valued at \$7.8 million, and found that for 8 modifications, valued at \$977,293, the initial IGCE significantly varied from the contractor's proposal, by as much as 205 percent. The contracting officers requested revisions to the IGCEs due to discrepancies between the Government cost estimates and the contractor's proposal. According to the contract files, the NSSA surveyor found mistakes in their calculations and corrected them in the revised IGCEs for five of the eight modifications. However, the contracting officers did not document the specific mistakes the surveyor made in his or her calculations. For five modifications, the contracting officer requested the contractor to revise its proposed prices, but the contractor never revised its proposed price. The contractor stated that it would not change its price because it was based on the actual scope of the work. For seven of the eight modifications, the revised IGCE reduced the difference between the initial IGCE and the contractor's proposal and served as the basis for the contracting officers' price reasonableness determinations (see Table 4). However, we found instances in which the pricing for individual contract line items in the revised IGCE varied significantly compared to the contractor's proposal. The contracting officers did not document the instances when contract line items in the proposals were priced significantly higher than the IGCE. For example, in modification 8 for contract N49400-07-G-A501-8139, we

found that the revised IGCE included contract line items 196, 197, and 200 that the contractor proposed for more than 25 percent over the revised IGCE, but the contracting officers did not document how they determined that the prices for those contract line items were fair and reasonable.

In contract N49400-07-G-A501-8139 modification 7, the initial IGCE was for \$67,408 and the revised IGCE was \$170,908 for a 154 percent increase. Because of the lack of documentation in the contract file, we were unable to determine what methodology the NSSA Detachment Bahrain surveyors used to revise the IGCE. Therefore, we cannot assess the accuracy of the surveyor's revision process or the revised IGCE. FISCSI Detachments Bahrain and Dubai contracting officers based price reasonableness on unsupported revised IGCEs that better matched the contractor proposals without explaining why the IGCEs were changed. Also, for the eight modifications listed in Table 5, the IGCE had little bearing on the award amount because awards were made at the proposed amount regardless of whether the IGCE was higher or lower. *NSSA Detachment Bahrain officials should review the methodology for developing IGCEs to determine that the IGCEs include sufficient supportive documentation for the original estimates and any change to the estimates.*

**Table 5. No Documented Price Reasonableness or Price Analysis in Contract Modifications**

| Contract     | Modifications | Award Value      | Price Reasonableness Determination |
|--------------|---------------|------------------|------------------------------------|
| 5059         | 14 and 15     | \$91,588         | None                               |
| 5059         | 7, 9, and 10  | 157,781          | Insufficient                       |
| 5120         | 1 and 2       | 291,644          | None                               |
| 7001         | 1             | 30,870           | None                               |
| 9088*        | 1             | 31,160           | None                               |
| 7032         | 22            | 10,178           | None                               |
| 6002         | 17            | 13,696           | None                               |
| 6002         | 21            | 133,435          | None                               |
| 6007         | 1             | 40,875           | None                               |
| <b>Total</b> | <b>13</b>     | <b>\$801,227</b> |                                    |

\*Contract N49400-07-G-A500-9088 is a continuation of contract N49400-07-G-A500-9059; therefore, we evaluated both as one contract.

A total of 13 modifications, valued at \$801,227, had missing or incomplete documentation. Specifically, 10 contract modifications, valued at \$643,446, had contract files that did not contain a documented price reasonableness determination in accordance with the FAR. In addition, three modifications, valued at \$157,781, had contract files that contained price reasonableness determinations but did not contain any supporting documentation to show how the contracting officers came to the determination (see

Table 5). Without a documented price determination or price analysis, we cannot verify whether fair and reasonable prices were achieved for the contracts. *The contracting officers should document their price reasonableness determinations for all contract modifications including the supporting documentation used for the price analysis.*

The contracting officers awarded 12 modifications, valued at \$790,680, for amounts significantly higher than the IGCE (see Table 6) but did not document the rationale for concluding that the significantly higher price was fair and reasonable. The contracting officers should have documented their fair and reasonable pricing determination as required by the FAR. Without documentation to support the contracting officers' actions, we could not verify that the prices were fair and reasonable.

**Table 6. Undocumented Contract Modifications Awarded Higher Than the IGCEs**

| Contract     | Modification | IGCE             | Awarded Value    | Difference Awarded Value vs. IGCE | Documentation |
|--------------|--------------|------------------|------------------|-----------------------------------|---------------|
| 6002         | 4            | \$1,044          | \$2,100          | 101%*                             | None          |
| 6002         | 8            | 1,116            | 1,450            | 30%                               | None          |
| 6002         | 9            | 8,900            | 14,520           | 63%                               | None          |
| 6002         | 13           | 33,694           | 161,858          | 380%                              | None          |
| 6002         | 16           | 5,136            | 28,720           | 459%                              | None          |
| 6002         | 19           | 9,928            | 36,394           | 267%                              | None          |
| 6002         | 22           | 3,200            | 4,700            | 47%                               | None          |
| 6007         | 2            | 17,925           | 51,644           | 188%                              | None          |
| 6007         | 3            | 65,478           | 83,002           | 27%                               | None          |
| 6007         | 4            | 67,680           | 104,272          | 54%                               | None          |
| 6007         | 5            | 81,163           | 109,806          | 35%                               | None          |
| 6007         | 6            | 154,138          | 192,214          | 25%                               | None          |
| <b>Total</b> | <b>12</b>    | <b>\$449,402</b> | <b>\$790,680</b> | <b>76%</b>                        |               |

\* $(2,100 - 1,044)/1,044 = 101\%$

In three modifications, valued at \$117,544, the contracting officers awarded the contracts with proposed prices exceeding the IGCE but justified their price reasonableness determinations with incorrect calculations (see Table 7). The contracting officers incorrectly stated that the contractors' proposed prices were lower than the IGCE when the proposed prices were actually higher than the IGCE.

Therefore, FISCSI Detachment Bahrain contracting officers awarded three contract modifications based on incorrect price reasonableness determinations. The contracting officers should be more attentive to their calculations when analyzing proposals to determine if they are fair and reasonable.

**Table 7. Contract Modifications Using Incorrect Calculations in Price Reasonableness Determinations**

| Contract     | Modification | IGCE             | Award Value      | Difference |
|--------------|--------------|------------------|------------------|------------|
| 9059         | 2            | \$9,094          | \$11,100         | 22%        |
| 9059         | 4            | 59,210           | 61,224           | 3%         |
| J001         | 3            | 42,998           | 45,220           | 5%         |
| <b>Total</b> | <b>3</b>     | <b>\$111,302</b> | <b>\$117,544</b> | <b>6%</b>  |

Contracting officers did not properly determine price reasonableness for 11 modifications or document their price reasonableness determinations for 25 modifications. As a result, the Navy may not have obtained fair and reasonable prices for contracted services awarded for \$2.7 million. *The FISCSI Detachments Bahrain and Dubai contracting officers should document fair and reasonable price determinations for all future contract actions with price changes, as required by FAR 15.406-3, or FAR 13.106-3.*

## **Additional Mistakes in Price Reasonableness Memoranda**

In addition to the 36 contract modifications that were not supported by adequate price reasonableness determinations, we found mistakes in price reasonableness memoranda for 16 contract actions. The contracting officers incorrectly calculated or transposed the amounts of the IGCE and the contractors' proposed prices in the price reasonableness documentation. However, the errors did not impact the overall determination of price reasonableness.

## **Conclusion**

The contracting officers did not adequately comply with price reasonableness requirements during the award of 7 contracts valued at \$16.2 million and 36 contract modifications, valued at \$2.7 million. This occurred because contracting officers did not perform or document price reasonableness determinations and based their price reasonableness determinations on unsupported revisions to IGCEs. As a result, FISCSI Detachments Bahrain and Dubai contracting officers did not demonstrate that they obtained the best price for more than \$18.9 million in contracting actions. In addition, for three other contracts, the contracting officer requested the surveyors to revise the IGCEs or used two different IGCEs without documenting the basis for the revision. The contracting officers should document fair and reasonable price determinations in accordance with the FAR. Contracting officers should also be more attentive when analyzing and documenting proposals to develop accurate price reasonableness documentation.

## **Recommendations, Management Comments, and Our Responses**

**B.1. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, direct the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai to require the contracting officers to document fair and reasonable price determinations for all future contract actions with price changes as required by Federal Acquisition Regulation 15.406-3, “Documenting the negotiation,” or Federal Acquisition Regulation 13.106-3, “Award and documentation.”**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that fair and reasonable price determinations at all detachments and sites did not meet applicable standards, and as a result, FISCSI RCD scheduled a 5-day price analysis training course from January 24 through 28, 2011. According to the Director, the course is being tailored to meet the specific needs of FISCSI, including the use of IGCEs as a method to establish price reasonableness and conduct price analyses of proposals when IGCEs cannot establish price reasonableness. The Director also stated that FISCSI RCD implemented a requirement, within the automated contract writing system, on November 15, 2010, that requires all team leaders to perform second-level reviews of every procurement transaction to identify quality issues with the fair and reasonable price determination.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

**B. 2. We recommend that the Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain, review the methodology for developing independent government cost estimates to determine that they include sufficient supporting documentation for the original estimates and any change to the estimates.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Officer in Charge, NSSA Detachment Bahrain, agreed. He stated that NSSA Detachment Bahrain provided surveyor training in January 2010 on developing IGCEs using the Joint Fleet Maintenance Manual, Volume VII, Chapter 5.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are partially responsive. Although training was provided to surveyors based on the Joint Fleet Maintenance Manual, there is no indication that the Officer in Charge reviewed the manual to determine if it required sufficient supporting documentation for the original estimates and any changes to the estimates. Based on our review of the Joint Fleet Maintenance Manual, Volume VII, Chapter 5, we found no indication that

supporting documentation is required for IGCEs. Surveyors are only required to fill out a Standard Cost Estimate Naval Sea Systems Command Form 4710/7 when estimating direct labor categories. Also, the manual does not address changes made to the IGCEs. We request that the Officer in Charge, NSSA Detachment Bahrain, provide additional comments in response to the final report that identify the results of his review of the methodology for developing the IGCE and documenting the IGCE and any changes.

## **Finding C. Insufficient Contract Surveillance**

FISCSI Detachments Bahrain and Dubai contracting officers did not provide adequate contract surveillance for 14 contracts, valued at \$35.3 million. This occurred because the contracting officers did not properly designate contracting officer's representatives (CORs) for all 14 contracts in accordance with the DFARS. In addition, FISCSI Detachments Bahrain and Dubai contracting officers did not make sure that NSSA Detachment Bahrain and Military Sealift Fleet Support Command personnel performed adequate surveillance or correctly accepted supplies and services for 13 out of 14 contracts. As a result, the Navy may not have received the quality of ship maintenance and repairs for which it contracted.

### **Criteria**

The FAR and DFARS provide criteria on contract surveillance.

#### **FAR**

FAR Subpart 46.4, "Government Contract Quality Assurance," states the Government should conduct contract quality assurance at times and places necessary to determine that the supplies or services conform to contract requirements. The quality assurance surveillance plan (QASP) is a document that allows the Government to determine whether supplies and services provided by the contractor conform to contract requirements. The QASP identifies all of the work requiring surveillance and how the surveillance will be performed.

FAR 46.502, "Responsibility for Acceptance," states that acceptance of supplies or services are the responsibility of the contracting officer. FAR 46.101, "Definitions," defines acceptance as the act of an authorized representative of the Government by which the Government, for itself, assumes ownership of existing identified supplies tendered or approves specific services rendered as partial or complete performance of the contract. FAR 46.501, "General," states that acceptance constitutes the Government's acknowledgement that the supplies or services conform to applicable contract quality and quantity requirements and that acceptance is evidenced by execution of an acceptance certificate on an inspection or receiving report form.

#### **DFARS**

DFARS Procedures, Guidance, and Information (PGI) 201.602, "Contracting Officers," states that for service contract actions, contracting officers will designate a properly trained COR in writing before contract performance begins. A COR can assist the contracting officer in the technical monitoring and administration of a contract, though he or she may not change the terms and conditions of the contract. In addition, a COR must be a Government employee qualified by training and experience, and designated in writing.

According to DFARS PGI 201.602-2, "Responsibilities," CORs assist in the technical monitoring or administration of a contract. The COR must also maintain a file for each contract assigned to include, at a minimum, a copy of the contracting officer's letter of

designation and other documentation describing the COR's duties, responsibilities, and documentation of actions taken to exercise the authority.

## **Three Requiring Activities**

The three requiring activities for the 14 contracts we reviewed are Norfolk Ship Support Activity (NSSA) Detachment Bahrain, Military Sealift Command, and the Navy Expeditionary Combat Command. NSSA Detachment Bahrain was the requiring activity for 12 of the 14 contracts. The Navy Expeditionary Combat Command and the Military Sealift Command were the requiring activity for one contract each.

### ***Contract Surveillance Lacking for 12 NSSA Detachment Bahrain Contracts***

FISCSI Detachments Bahrain and Dubai contracting officers did not designate a COR for 12 NSSA Detachment Bahrain contracts in accordance with DFARS PGI 201.602-2. The FISCSI Detachment Bahrain Deputy Officer in Charge stated that CORs were not used because the contracts were a combination of supply and commercial services contracts and a COR was not required for these types of contracts. However, the DFARS does not distinguish between commercial and non-commercial services. We reviewed the 12 contracts and found that they included services. For example, contract N49400-04-H-A501-6098 required that the contractor inspect and repair the underwater hull, the fuel oil tank, and the potable water tank. *Because the contracts included services, the contracting officers should have designated trained CORs for these 12 contracts, valued at \$31 million.*

In fact, 12 of the NSSA Detachment Bahrain contracts had 2 to 3 surveyors assigned to each contract. The surveyors acted as CORs when overseeing contractor performance on the ships. However, the contracting officers did not designate the surveyors as CORs in accordance with DFARS requirements, nor did the surveyors provide sufficient surveillance of the contractors. In addition, the contracting officer did not fully inform the surveyors of their responsibilities and liabilities as CORs. Furthermore, the FISCSI Detachments Bahrain and Dubai contracting officers did not verify that the surveyors performed adequate surveillance on the 12 NSSA Detachment Bahrain contracts.

In addition, we reviewed the contract files for the 12 contracts to determine whether the contracting officers developed a QASP for each contract. We did not find documents specifically labeled as QASP; however, the contracts contained work specifications that acted as a QASP, described the work requiring surveillance and the method of surveillance, and met the FAR requirements for a QASP. These specifications contained built-in checkpoints, which the surveyor observed the contractor performing. The contractor provided reports to the surveyor documenting the checkpoints and other work performed as described in the specifications. The surveyor signed the reports and kept them in the surveyor file. By accepting and signing the reports, the surveyor indicated that the work products met quality standards. However, the contract files did not include all of the surveyor reports, and some of the surveyor reports were unsigned.

We selected a judgment sample of the contract line item numbers from the 12 contracts and contract modifications based on the specifications contained in those line items. We determined which contractor reports the surveyor should have accepted. We then reviewed the surveyor files for each contract to determine whether all of the reports required in the specifications were received, indicating that the surveyor certified that the contractor performed the work. We then reviewed the reports, when available, to determine if the surveyor accepted the results by signing the reports. While on site, we reviewed the surveyor files; however, the surveyors could not locate files for three contracts, and the surveyor files for the other nine contracts were unorganized and incomplete.

We requested that NSSA provide us any missing reports from the surveyor files. However, an NSSA surveyor stated that he had to obtain the reports from the contractor. Even with the contractor-provided reports, NSSA Detachment Bahrain officials were unable to provide all of the required reports. In addition, surveyor signatures were missing on some of the reports that were provided. *NSSA Detachment Bahrain should require the surveyors, or other designated CORs, to maintain surveillance files on all current and future contracts and require the surveyors to sign all surveillance reports.* According to a supervisory surveyor, NSSA Detachment Bahrain does not have a written standard operating procedure for maintaining and storing contract surveillance documentation. However, the FISCSI Detachment Bahrain Deputy Officer in Charge stated that the NSSA supervisory surveyor is required to certify the contractor invoices for payment, certifying that the contractor completed the work based on the surveyor files. The NSSA Detachment Bahrain financial management analyst also stated that the surveyors check their files to make sure that work billed was completed. However, based on our review, it is unclear how the surveyors made adequate determinations that contracts were completed to the specified quality standards based on incomplete and inadequate surveyor files. Additionally, because the contracting officer relied solely on the surveyor's certification that the contractor completed the work, all of those reports should have been part of the contract file maintained by the contracting office. *As a result, FISCSI should require that the contracting officer properly document acceptance of all supplies and services on current and future contracts.*

*The NSSA surveyors also acted as certifying officials and relied on their unorganized and incomplete files to approve contractor invoices for payment.*

The NSSA surveyors also acted as certifying officials and relied on their unorganized and incomplete files to approve contractor invoices for payment. As a result, the Navy may not have received the quality and quantity of work they required for the 12 contracts, valued at

\$31 million. *Because the surveyor files are relied on for quality assurance and contractor payment, NSSA Detachment Bahrain should develop standard operating procedures that require the files to be complete and organized.* In addition, the FISCSI Detachments Bahrain and Dubai contracting officers should certify that the COR follows the standard operating procedures by including this requirement in the COR designation letter.

## **Contract Surveillance Lacking for the Military Sealift Command Contract**

FISCSI Detachment Bahrain contracting officers did not designate a COR for contract N49400-07-G-A501-J001, valued at \$743,085, in accordance with DFARS PGI 201.602-2. Similar to the surveyors for NSSA Detachment Bahrain, Military Sealift Fleet Support Command had a Government port engineer assigned to the contract who performed the duties of a COR. The port engineer used a port engineering program, which he used to document the status of each job. However, the contracting officer did not designate the port engineer with a signed letter in accordance with DFARS PGI 201.602-2. In addition, the contract file did not have evidence of proper surveillance and acceptance of the goods and services obtained under contract N49400-07-G-A501-J001. The port engineers used an automated system to document and file the surveillance actions required in the contract.

The surveillance documentation provided by the Military Sealift Fleet Support Command demonstrated that the port engineer provided some surveillance for contract N49400-07-G-A501-J001. However, we could not connect the surveillance documents to the inspections and reports required in the contract specifications and the statement of work. None of the surveillance documents we received referenced the specific inspections required for the contract line item numbers in the specifications and the statement of work. Also, the surveillance documents for contract N49400-07-G-A501-J001 provided an overview of the work done on the ship, but did not include any information about the required inspections. Therefore, we determined that the port engineer did not perform adequate surveillance for contract N49400-07-G-A501-J001 because there is no evidence that the port engineer evaluated all the reports required in the specifications and the statement of work, or that the port engineer performed all the required inspections. *As a result, Military Sealift Fleet Support Command should require that the port engineer or other designated COR maintain files on all current and future contracts that contain all of the required reports in the specifications and that this information be retrievable and traceable to the requirement in the contract specifications and statement of work.*

## **Contracting Officer Representatives Not Trained or Aware of Responsibilities for Navy Expeditionary Combat Command Contract**

FISCSI Detachment Dubai contracting officer designated one to six CORs at any given time for contract N49400-08-C-0022, valued at \$3,618,686, but we could not verify that all of the CORs were properly trained or aware of their responsibilities as CORs. Because the contractor completed work on contract N49400-08-C-0022 at two sites, we determined that, during the period of performance of the contract, the contracting officer should have designated at least two CORs, one for each site. At one point, the contracting officer only had one designated COR for both sites. The FISCSI Detachment Dubai contracting officer could not provide documentation of the CORs' training. Because some of the CORs did not sign the designation letters, there is no evidence that the CORs were aware of their responsibilities. *As a result, the FISCSI Detachment Dubai contracting officer should properly document the designation and training of CORs in accordance with DFARS 201.602-2.*

## **Conclusion**

FISCSI Detachments Bahrain and Dubai contracting officers did not adequately comply with the contract surveillance requirements during the administration of 14 contracts, valued at \$35.3 million. The FISCSI Detachments Bahrain and Dubai contracting officers did not designate CORs in accordance with DFARS PGI 201.602-2. The FISCSI Detachments Bahrain and Dubai contracting officers should designate the surveyors and port engineers as CORs in writing and make sure that they have training, if they plan to continue to use them as CORs. The contracting officers also did not verify that the surveyor or port engineer accepted the contracted services in 13 contracts in accordance with FAR 46.502. FISCSI Detachments Bahrain and Dubai contracting officers, NSSA surveyors, and Military Sealift Command port engineers must comply with contract surveillance requirements in the FAR and DFARS to verify that the Navy receives the quality of ship maintenance and repairs for which it contracted.

## **Recommendations, Management Comments, and Our Responses**

**C.1. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, require that the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai:**

- a. Designate contracting officer's representatives on all current and future ship maintenance and repair contracts using a designation letter containing all of the elements in Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information 201.602-2, "Responsibilities."**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that according to Naval Sea Systems Command, ship repair is designated as a supply contract and not a service contract that would require the appointment of a COR. However, the Director stated that FISCSI RCD previously determined that the ship repair contracts are so critical that the use of a COR is appropriate. The Director also stated that the requirement to appoint a COR in all ship repair contracts will be an element of the updated local ship repair and MARAV policy memoranda. He also stated that on November 23, 2010, FISCSI RCD implemented a database to track all contracts that require that a COR be designated, including ship repair contracts. According to the Director, the standard operating procedure within this database requires that COR training records, designation letters, and annual meetings between the COR and the contract administrator be entered for each contract. The Director stated that the records would be entered into the database by December 30, 2010.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

- b. Require that all designated contracting officer's representatives receive required contracting officer representative training.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that the CORs will be required to complete training before appointment. As stated in his response to Recommendation C.1.a, COR training records will be a required element of the FISCSI RCD database.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

- c. Require that contracting officer acceptance of supplies and services be performed in accordance with the FAR on current and future contracts.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that the revised MARAV policy memoranda will require the inclusion of a contract administration plan for all ship repair contracts. He also stated that the revised policy memoranda will include a standardized process that requires the contracting officers to obtain the COR's inspection and acceptance documentation for all ship repair transactions. According to the Director, the contracting officers will include the documents in the official contract file to ensure compliance with the inspection and acceptance processes outlined in FAR Part 46, "Quality Assurance."

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

## **C.2. We recommend that the Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain:**

- a. Develop a standard operating procedure outlining the organization and documentation required for the surveyor files.**
  
- b. Require the surveyors or other designated contracting officer's representatives to maintain files on all current and future contracts that contain all of the required reports in the specifications and sign surveillance reports.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Officer in Charge, NSSA Detachment Bahrain, agreed to

Recommendations C.2.a and C.2.b. The Director stated that NSSA Detachment Bahrain is training personnel for COR certification. The Director also stated that FISCSI RCD will include a standardized process for obtaining appropriate inspection and acceptance documentation, to comply with FAR Part 46, for ship repair transactions as part of the revised local ship repair and MARAV policy memoranda expected to be issued by March 31, 2011.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are partially responsive. During our audit, we attempted to review the NSSA surveyor files for 12 contracts; however, the surveyors could not locate files for 3 contracts, and the surveyor files for the other 9 contracts were unorganized and incomplete. The Director stated in his response that FISCSI RCD is developing a standard process for obtaining appropriate inspection and acceptance documentation for ship repair transactions; however, the Director did not state that the process would apply to NSSA surveyors or that the process would include standard operating procedures for organizing the surveyor files. Also, the Director did not address Recommendation C.2.b, which requests that surveyors be required to maintain files on all current and future contracts. We request that the Officer in Charge, NSSA Detachment Bahrain, provide additional comments in response to the final report to verify that NSSA develops a standard operating procedure that details the surveyors' responsibilities and outlines the organization and required documentation in the surveyor files.

**C.3. We recommend that the Director, Military Sealift Fleet Support Command require the port engineer or other designated contracting officer representatives to maintain files on all current and future contracts that contain all of the required reports in the specifications and that this information be retrievable and traceable to the contract surveillance requirements.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Director, Military Sealift Fleet Support Command, agreed. The Director stated that Military Sealift Fleet Support Command developed and implemented a standard work item that will be included in requests for proposals. He stated that the standard work item describes the test and inspection records to be maintained for each work item. According to the sample standard work item provided as part of the Director's response, the contractor must identify the solicitation, contract number, ship name, and Government work item number on each test and inspection record. In addition, the Director stated that Military Sealift Fleet Support Command maintains records for a period of 6 years and 3 months after final payment, in accordance with FAR 4.805, "Storage, Handling, and Disposal of Contract Files."

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

# **Finding D. Contract Actions for \$4.1 Million Were Incorrectly Funded**

FISCSI Detachments Bahrain and Dubai contracting officers incorrectly funded \$4.1 million in contracting actions with FY 2005 funds instead of FY 2006 funds. This occurred because NSSA Detachment Bahrain, the requiring activity, had only FY 2005 funds available to fund the work included in contract N4940-03-H-A005-5002. Also, FISCSI Detachments Bahrain and Dubai contracting officers incorrectly grouped ship maintenance work into contract N4940-03-H-A005-5002, that included bona fide needs from FY 2005 and FY 2006, and did not have a legal review of the contracting actions. As a result, the contracting officers violated the bona fide needs rule and may have violated the Antideficiency Act.

## **Criteria**

The United States Code, FAR, and DoD Financial Management Regulation (DoD FMR) provide criteria on obligating funds.

### ***United States Code***

Section 1341, title 31, United States Code, “Limitations on Expenditure and Obligating Amounts,” states that a Federal agency may not authorize an obligation exceeding an amount available in an appropriation for the obligation. Additionally, a Federal agency may not obligate the Government for the payment of money before Congress makes an appropriation.

Section 1502, title 31, United States Code, “Balances Available,” states that the balance of an appropriation, limited for obligation to a definite period, is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability.

### ***FAR***

FAR 32.702, “Contract Funding – Policy,” states that a Government employee cannot authorize an obligation in excess of the funds available or in advance of appropriations. In addition, before executing a contract, the contracting officer must obtain written assurance from the responsible fiscal authority that funds are available.

### ***DoD Regulation Financial Management Regulation***

DoD Regulation 7000.14-R, “Standards for Recording and Reviewing Commitments and Obligations,” (DoD FMR), volume 3, chapter 8, states that current fiscal year appropriations may be obligated for those maintenance and repair contracts awarded near the end of the fiscal year, even though contractor performance may not begin until the following fiscal year. The DoD FMR states that the contract shall satisfy a bona fide need that arose in or before the fiscal year of the appropriation charged. The DoD FMR also requires that contracts awarded near the end of the fiscal year contain a specific requirement that the work begin before January 1 of the following calendar year.

### **USS *Firebolt* (Patrol Coastal 10)**



Source: <http://www.surflant.navy.mil/shippics/firebolt.jpg>

### **Contract Was Split and Renumbered Into Two Contracts**

The administrative contracting officer split contract N49400-03-H-A005-5002 after it was awarded into two separate contracts, N494000-03-H-A005-6002 and N49400-03-H-A005-6007. On September 28, 2005, the FISCSI Detachment Bahrain contracting officer awarded contract N49400-03-H-A005-5002 to Dubai Dry Docks for \$7 million. The scope of work was for the drydock and overhaul of two Patrol Coastal class ships, the USS *Chinook* and USS *Firebolt*. NSSA Detachment Bahrain, the requiring activity, funded contract N49400-03-H-A005-5002 with FY 2005 money. The FISCSI Detachment Bahrain Deputy Officer in Charge stated that the issuing contracting officer then transferred the contract to an administrative contracting officer at FISCSI Detachment Dubai for administration. She also stated that the administrative contracting officer separated and renumbered the contract into N49400-03-H-A005-6002 for the USS *Chinook* and N49400-03-H-A005-6007 for the USS *Firebolt*. The administrative contracting officer signed contract N49400-03-H-A005-6002 on October 18, 2005, for \$3.5 million and contract N49400-03-H-A005-6007 on March 12, 2006, for \$3.5 million. Including modifications, contract N49400-03-H-A005-6007 was valued at \$4.1 million and contract N49400-03-H-A005-6002 was valued at \$4.4 million. Both contracts and all the modifications were funded with FY 2005 money (see Table 8).

**Table 8. Contracts Award Summary**

| Contract Number  | Date Signed        | Initial Amount | Final Contract Value | Funding Used | Date Work Began |
|--|--------------------|----------------|----------------------|--------------|-----------------|
| N49400-03-H-A005-5002<br><i>(CHINOOK &amp; FIREBOLT)</i> | September 28, 2005 | \$7.0 million  | N/A                  | FY 2005      | Split           |
| N49400-03-H-A005-6002<br><i>(CHINOOK)</i>                | October 18, 2005   | \$3.5 million  | \$4.4 million        | FY 2005      | October 8, 2005 |
| N49400-03-H-A005-6007<br><i>(FIREBOLT)</i>               | March 12, 2006     | \$3.5 million  | \$4.1 million        | FY 2005      | March 1, 2006   |

## Contracts for \$4.1 Million Were Funded With the Incorrect Year Funding

*Therefore, the contracting officer originally included all of the work in N49400-03-H-A005-5002 in order to fund the entire amount with FY 2005 money, but later split the contract into two contracts, N49400-03-H-A005-6002 and N49400-03-H-A005-6007.*

FISCSI Detachment Bahrain contracting officers awarded contract N49400-03-H-A005-5002 at the end of FY 2005, and later split the award into two contracts, N49400-03-H-A005-6002 signed on October 18, 2005, and N49400-03-H-A005-6007 signed on March 12, 2006. The

contracting officer used FY 2005 funds on both contracts, even though work started for both in FY 2006. The contract file contained a memorandum from the Officer in Charge for NSSA Detachment Bahrain, the requiring activity, which stated that the original contract was funded with FY 2005 funds because FY 2006 funds were not available. Therefore, the contracting officer originally included all of the work in N49400-03-H-A005-5002 in order to fund the entire amount with FY 2005 money, but later split the contract into two contracts, N49400-03-H-A005-6002 and N49400-03-H-A005-6007.

Section 1502, title 31, United States Code, states that the balance of an appropriation is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability. The DoD FMR states that funding can be used for a contract at the end of a fiscal year for work performed in the following fiscal year, so long as the work begins prior to January 1 of the following calendar year.

The contractor began work on the USS *Chinook* on October 8, 2005, prior to January 1 as required by the DoD FMR. However, contract N49400-03-H-A005-5002 states that the planned arrival of the USS *Firebolt* was January 23, 2006, after the January 1 DoD FMR requirement. In addition, the contractor began work on the USS *Firebolt* on March 1, 2006, after January 1 of the following calendar year, and more than 5 months after the initial contract was awarded. Based on when contract N49400-03-H-A005-6007 was signed and work began, the work under this contract, which was originally funded under N49400-03-H-A005-5002, was a bona fide need of FY 2006 and should have been funded accordingly.

Half of contract N49400-03-H-A005-5002, consisting of contract N49400-03-H-A005-6007 requirements, and all of the modifications on contract N49400-03-H-A005-6007 did not indicate a bona fide need in FY 2005 and did not meet the DoD FMR exception. FISCSI Detachment Bahrain contracting officers circumvented the DoD FMR by grouping work into contract N49400-03-H-A005-5002 that included bona fide needs from different fiscal years, creating a bona fide needs violation, and a potential Antideficiency Act violation if correct year funds are not available. Based on the actual contract performance dates and the bona fide need in FY 2006, the contracting officers should have solicited and issued two contracts, using FY 2005 funds for the USS *Chinook* and FY 2006 funds for the USS *Firebolt*. *NSSA Detachment Bahrain personnel should correct the funding on half of contract N49400-03-H-A005-5002 and all of the modifications on contract N49400-03-H-A005-6007, valued at a total of \$4.1 million, with appropriate year funds, if funds are available; if not, an Antideficiency Act violation has occurred.* The Assistant Secretary of the Navy (Financial Management and Comptroller) should initiate a preliminary review of the potential Antideficiency Act violation within 10 days to determine whether a violation occurred and complete a preliminary review within 90 days as required by DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 14, chapter 3, “Preliminary Reviews of Potential Violations.” The Assistant Secretary of the Navy (Financial Management and Comptroller) should also provide the results of the preliminary investigation to our office. As a result of missing documentation and funding issues, the Commander FISCSI should perform a review and as appropriate initiate administrative action for the contracting officers for contracts N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007.

### **Legal Review Not Performed**

Naval Supply Systems Command Instruction 5801.1, “Referral of Contractual Matters to the Office of Counsel,” September 8, 2009, requires a review by local counsel for contractual matters above \$100,000 for FISCSI. The Naval Supply Systems Command Instruction also states that the contract file should reflect that counsel has reviewed and agreed, or that all outstanding issues have otherwise been resolved. Because the contract files lacked a legal review, we could not determine that the FISCSI Detachment Bahrain legal counsel reviewed and approved the contracting officers’ decisions during contract award and administration. A legal review by the legal counsel may have prevented the potential funding violations for contract N49400-03-H-A005-6007. *FISCSI Detachments Bahrain and Dubai personnel should require contracting officers to obtain legal counsel reviews for contractual matters above \$100,000, and ensure that the contract file reflects that decision in accordance with Naval Supply Systems Command Instruction 5801.1.*

### **Contract Signed Before Verifying the Availability of Funds**

The FISCSI Detachment Bahrain contracting officer signed contract N49400-03-H-A005-5002 on September 28, 2005, for \$7 million. The contracting office provided funding documents, dated August 31, 2005, that supported \$6 million in funds that were available for the contract. The contracting officer also provided funding documents that

supported an additional \$1 million in funds available; however, these documents were not approved until September 29, 2005, which is after the contracting officer signed the contract on September 28, 2005.

According to FAR 32.702, the contracting officer is responsible for obtaining written assurance that funds are available before obligating the Government, or the contracting officer must ensure that an “availability of funds” clause is included in the contract award. However, none of the contracts contained the FAR-required “availability of funds” clause. The contracting officer issued contract N49400-03-H-A005-5002 before verifying the availability of funds, as required by FAR 32.702. Since \$1 million in funds were not available for contract N49400-03-H-A005-5002, the contracting officer obligated the Government in excess of funds available, which is prohibited by 31 U.S.C. 1341. *FISCSI Detachments Bahrain and Dubai contracting officers should always verify in writing that funds are available before awarding contracts.*

## **Documents Missing From Contract Files**

In addition, the FISCSI Detachments Bahrain and Dubai contracting officers did not verify the contract files for N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007 were complete and that they contained a copy of the contracts signed by the contractor. Section 1501, title 31, United States Code, “Documentary Evidence,” states that a Government obligation must be supported by a written, binding agreement between the Government and another party that specifies goods to be delivered or services to be provided and is executed before the end of the appropriation or fund period of availability.

FAR Subpart 4.8, “Government Contract Files,” also requires the head of the contracting office to establish contract files that contain records of all contractual actions. The contract files should be sufficient to show a complete history of the transactions to provide a complete background for making informed decisions. The contracting officers for contracts N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007 did not keep adequate contract files. *The FISCSI Detachments Bahrain and Dubai contracting officers should perform a review related to missing documentation of contracts N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007.*

## **Conclusion**

FISCSI Detachments Bahrain and Dubai contracting officers should have funded half of N49400-03-H-A005-5002, and all of the modifications on contract N49400-03-H-A005-6007 with FY 2006 funds instead of FY 2005 funds. This occurred because NSSA Detachment Bahrain personnel provided FY 2005 funds to be used on services received in FY 2006. Therefore, FISCSI Detachments Bahrain and Dubai contracting officers did not verify they properly obligated the Government for half of contract N49400-03-H-A005-5002 and all of the modifications on contract N49400-03-H-A005-6007 valued at a total of \$4.1 million. By using the wrong year funds, FISCSI Detachments Bahrain and Dubai contracting officers may have circumvented Congress’ constitutional powers of

controlling the budgetary expenditures made by the Federal Government, and created a potential Antideficiency Act violation.

## **Recommendations, Management Comments, and Our Responses**

### **D.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):**

**a. Initiate a preliminary review of the potential Antideficiency Act violation within 10 days to determine whether a violation occurred.**

**b. Complete a preliminary review within 90 days as required by DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 14, chapter 3, “Preliminary Reviews of Potential Violations,” and provide the results of the preliminary investigation to the Office of Inspector General.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed with Recommendations D.1.a and D.1.b. The Director stated that FISCSI completed a review of the contracts before November 16, 2010. The Director also stated that the Assistant Secretary of the Navy (Financial Management and Comptroller) will take the necessary action to initiate a preliminary investigation with the appropriate command that will be completed by February 22, 2011.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

### **D.2. We recommend that the Commanding Officer, Fleet and Industrial Supply Center Sigonella, require that the Fleet and Industrial Supply Center Sigonella, Detachment Bahrain, and the Fleet and Industrial Supply Center Sigonella, Detachment Dubai:**

**a. Require contracting officers to obtain legal counsel reviews for contractual matters for more than \$100,000 and ensure that the contract file reflects the counsel’s decision in accordance with the Naval Supply Systems Command Instruction 5801.1, “Referral of Contractual Matters to the Office of Counsel,” September 8, 2009.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director included references to Navy Instructions requiring legal counsel reviews, including the Naval Supply Systems Command Instruction 5800.1, “Referrals to Offices of Counsel, the

Naval Supply Systems Command Claimancy,” September 16, 2009; Naval Supply Systems Command Instruction 5801.1, “Referral of Contractual Matters to the Office of Counsel,” September 8, 2009; and the FISCSI Instruction 5801.1, “Commanding Officer, FISCSI Italy,” August 17, 2009. The Director stated in his response to Recommendation C.1.a that FISCSI RCD implemented a centralized database on November 23, 2010. According to the Director, this database tracks all legal reviews. He stated that a contract specialist will input the transaction into the database. The Director also stated that the database would be updated for the results of the legal review once the transaction is complete. In addition, the Director stated that the database will be queried and cross-checked periodically to ensure that all contracting actions are receiving a proper legal review.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

- b. Verify that the contracting officers document in writing that funds are available before awarding contracts.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that since executing contract actions associated with Finding D, the Commander, FISC, implemented policy in 2006 to include a standardized process that requires FISC Comptroller office personnel to officially accept funds and verify in writing that they are available. He further stated that a reference to the official acceptance documents and dates is a requirement for all pre-award clearance documentation.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are partially responsive. The standard operating procedure document included with the Director’s comments does not support the requirement for funds acceptance as indicated in his response. Also, the standard operating procedure was dated November 14, 2004, before the award of the contract actions associated with Finding D, not in 2006 as stated in the Director’s comments. Therefore, we ask that FISCSI provide additional comments in response to the final report identifying the requirement or standard operating procedure that requires funds acceptance before contract award.

- c. Perform a review of contracting officers’ actions related to missing documentation and potential funding violations for contracts N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007, and as appropriate initiate administrative action.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Commanding Officer, FISCSI, agreed. The Director stated that

FISCSI is currently reviewing the contracts for a potential Antideficiency Act violation, and the Chief of the Contracting Office will wait for a full response from the Assistant Secretary of the Navy (Financial Management and Comptroller) before determining whether further administrative action is necessary. The Director stated that the estimated completion date is March 31, 2011.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are partially responsive. Although FISCSI agreed with the recommendation, it is unnecessary for FISCSI to wait for a full response on the potential Antideficiency Act violation before deciding on administrative action against the contracting officers. NSSA personnel agreed that incorrect funding was used and is working to correct the funding issues as indicated in the response to Recommendation D.3. In addition, the contracting officers did not ensure availability of funds or maintain complete contract files, including legal reviews or contractor-signed contracts. Therefore, we request that FISCSI provide additional comments in response to the final report identifying whether FISCSI intends to take administrative actions against the contracting officers.

**D.3. We recommend that the Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain correct the funding for half of contract N49400-03-H-A005-5002 and all of the modifications on contract N49400-03-H-A005-6007 with the appropriate fiscal year funds, if available.**

### ***Management Comments***

The Director, Program Analysis and Business Transformation, DASN (A&LM), responding for the Officer in Charge, NSSA Detachment Bahrain, agreed. The Director stated that NSSA personnel are working with FISC Bahrain and United States Fleet Forces Command to identify appropriate fiscal year 2006 funds to correct the funding, with an estimated completion date of September 30, 2011.

### ***Our Response***

The Director, Program Analysis and Business Transformation, DASN (A&LM), comments are responsive. No further comments are required.

## **Appendix A. Scope and Methodology**

We announced the audit in March 2009 and then split the project into four projects. We conducted this performance audit from November 2009 through November 2010 in accordance with generally accepted government auditing standards. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This is the fourth in a series of reports on the Army and Navy ship maintenance contracts. We selected a judgment sample of 14 FISCSI Detachments Bahrain and Dubai contracts, 13 issued under basic ordering agreements and 1 additional FISCSI contract; 15 Army contracts; and 7 Naval Sea Systems Command technical instructions<sup>5</sup> awarded from FY 2004 through FY 2009 (valued at \$95,189,078) based on geographical location and high dollar value. We selected this judgment sample from a universe of 2,934 ship repair and maintenance contracts valued at \$171,901,765. These 2,934 contracts were awarded or modified from FY 2004 through FY 2009 with place of performance located in Southwest Asia. However, during the fieldwork stage of the audit, the team identified that the potential issues pertaining to FISCSI, Army, and Naval Sea Systems Command contracts were notably different. Therefore, we split the original project into four separate projects. This report addresses 14 FISCSI Detachments Bahrain and Dubai contracts, valued at \$35.3 million. We met with officials from FISCSI Detachment Naples, FISCSI Detachment Bahrain, FISCSI Detachment Dubai, NSSA Detachment Bahrain, and Military Sealift Command.

This project focused on the 14 FISCSI Detachments Bahrain and Dubai contracts observed during our site visit to the FISCSI Detachment Bahrain and FISCSI Detachment Dubai contracting offices in Manama, Bahrain, and Dubai, United Arab Emirates, from May through June 2009. The 14 contracts were awarded from December 2004 through March 2009. The results of the review of the 14 FISCSI Detachments Bahrain and Dubai contracts are included in this report.

We reviewed Federal and DoD criteria regarding quality assurance and surveillance to evaluate whether the FISCSI Detachments Bahrain and Dubai contracts complied with criteria. We conducted extensive research of Federal and DoD criteria relating to contract quality assurance and surveillance requirements, competition, and price reasonableness requirements. The specific criteria reviewed included the U.S.C., FAR, DFARS, and Government auditing standards.

We reviewed the FISCSI Detachment Bahrain and Dubai contracting files, including contracts, contract solicitation, contract modifications, contract work specifications,

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<sup>5</sup> For discussion of technical instructions see DoD IG Report No. D-2010-0087, “Weaknesses in Oversight of Naval Sea Systems Command Ship Maintenance Contract in Southwest Asia,” September 27, 2010.

MARAV agreements, business clearance memorandums, independent government cost estimates, and COR designation letters. We also reviewed the NSSA surveyor files, including surveillance documentation and contractor testing reports. We also reviewed contractor invoices. We reviewed these documents for compliance with the U.S.C., FAR, DFARS, and Government auditing standards relating to contract quality assurance and surveillance requirements, competition, and price reasonableness requirements.

## **Use of Computer-Processed Data**

We used computer-processed data from the Federal Procurement Data System-Next Generation database to help choose our judgment sample of contracts for the audit. We queried all contract actions related to ship maintenance performed in the U.S. Central Command area of responsibility since FY 2004. However, we did not rely on this data to support our findings. Therefore, we did not perform a reliability assessment of the computer-processed data.

## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (IG) and Naval Audit Service have issued six reports discussing Army and Navy ship repair, and contracting activities at the FISCSI. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Naval Audit Service reports are not available over the Internet.

### **DoD IG**

DoD IG Report No. D-2010-0087, “Weaknesses in Oversight of Naval Sea Systems Command Ship Maintenance Contract in Southwest Asia,” September 27, 2010

DoD IG Report No. D-2010-064, “Army Vessels Maintenance Contracts in Southwest Asia,” May 21, 2010

DoD IG Report No. D-2010-005, “Information Security at the Fleet and Industrial Supply Center, Sigonella, Bahrain,” November 3, 2009

DoD IG Report No. D-2008-083, “Obligation of Funds for Ship Maintenance and Repair at the U.S. Fleet Forces Command Regional Maintenance Centers,” April 25, 2008

### **Navy**

N2010-036, “Department of the Navy Acquisition Checks and Balances at Fleet and Industrial Supply Center Sigonella Naval Regional Contracting Detachments Bahrain and Dubai,” June 16, 2010

N2010-0008, “Selected Contracts and Contract Activities at Fleet and Industrial Supply Center Sigonella, Italy,” February 5, 2010

## **Appendix B. Summary of Contract Information in Our Sample**

|     | <b>Contract Number</b> | <b>FAR Used</b> | <b>Initial Award Value</b> | <b>Final Contract Value</b> |
|-----|------------------------|-----------------|----------------------------|-----------------------------|
| 1)  | N49400-08-C-0022       | 13.5            | \$ 1,599,998               | \$ 3,618,686                |
| 2)  | N49400-07-G-A500-9059  | 13.5            | 1,763,129                  | 2,048,507                   |
| 3)  | N49400-07-G-A501-7032  | 13.5            | 791,050                    | 914,349                     |
| 4)  | N49400-07-G-A501-7081  | 13.5            | 668,894                    | 837,035                     |
| 5)  | N49400-07-G-A501-8038  | 15              | 1,383,643                  | 1,748,719                   |
| 6)  | N49400-07-G-A501-8139  | 13.5            | 2,430,782                  | 3,381,865                   |
| 7)  | N49400-07-G-A501-9045  | 13.5            | 1,035,764                  | 1,186,205                   |
| 8)  | N49400-07-G-A501-J001  | 13.5            | 608,966                    | 743,085                     |
| 9)  | N49400-07-G-A600-7001  | 15              | 4,295,155                  | 4,326,025                   |
| 10) | N49400-03-H-A005-6002  | 15              | 3,477,033                  | 4,384,844                   |
| 11) | N49400-03-H-A005-6007  | 15              | 3,508,380                  | 4,135,358                   |
| 12) | N49400-04-H-A501-5059  | 13.5            | 1,574,722                  | 2,523,589                   |
| 13) | N49400-04-H-A501-5120  | 13.5            | 1,335,147                  | 1,799,791                   |
| 14) | N49400-04-H-A501-6098  | 13.5            | 3,016,167                  | 3,655,756                   |
|     | <b>Total</b>           |                 | <b>\$27,488,830</b>        | <b>\$35,303,814</b>         |

# Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments



**DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(RESEARCH, DEVELOPMENT AND ACQUISITION)  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000**

December 16, 2010

MEMORANDUM FOR NAVY AUDIT (NAVIG-43)

SUBJECT: Department of Defense, Office of Inspector General Draft Report on Improvements Needed on the Fleet and Industrial Supply Center, Sigonella, Ship Maintenance Contracts in Southwest Asia, Project No. D2009-D000AS-163.002 of November 16, 2010

As requested by the subject Draft Report, Project No. D2009-D000AS-163.002 the attached response is submitted.

In addition to the responses provided to the specific findings, the following administrative changes are suggested:

- a. The report refers to the "Commanding Officer, Norfolk Ship Activity Detachment Bahrain." This should be corrected to state "Officer in Charge, Norfolk Ship Support Activity Detachment Bahrain" at each occurrence.
- b. The report should mention of period covered in the assessment. Inspection was conducted in March 2009 and reviewed contracts awarded from 2004 to early 2009.

If you have any questions pertaining to this memo or its attachments, please refer them to  
at [redacted] or at [redacted].

*Bruce A. Sharp*  
Bruce A. Sharp  
Director, Program Analysis and  
Business Transformation  
Deputy Assistant Secretary of the Navy  
(Acquisition and Logistics Management)

Attachments:  
As Stated

Copy to:  
RDA(FM&C)  
MSFSC  
FISCSI  
OIC, SUPSHIP, Det Bahrain

NAVY COMMENTS TO DODIG DRAFT REPORT ON IMPROVEMENTS  
NEEDED ON THE FLEET AND INDUSTRIAL SUPPLY CENTER, SIGONELLA  
SHIP MAINTENANCE CONTRACTS IN SOUTHWEST ASIA  
Project Number D2009-D000AS-0163.002  
16 November 2010

**Finding A. Competition Was Inappropriately Limited**

**Recommendations:**

A. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, direct the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai:

1. Comply with competition requirements in the Federal Acquisition Regulation Part 6, "Competition Requirements," and Federal Acquisition Regulation Part 13.5, "Test Program for Certain Commercial Items," as applicable, for all future ship maintenance and repair contracts even when work must be accomplished by a Master Agreement for Repair and Alteration of Vessels holder, so that additional sources of competition can be identified and encouraged.

**Navy Comment: Concur with the recommendation.**

Through internal review processes (i.e., contract review boards, quality assurance programs) FISCSI Code 200 had already ascertained that the offices in Bahrain and Dubai were not executing competition for ship repairs properly. There had been a persistent misunderstanding that it was appropriate to limit solicited sources for repairs to sources located within a specific geographical region. Additionally, there was a misunderstanding of Defense Federal Acquisition Regulation Supplement (DFARS) subpart 217.7103-3 "Solicitations for job orders" which states that "When a requirement arises within the United States or its outlying areas for the type of work covered by the master agreement, solicit offers from prospective contractors that - previously executed a master agreement; or have not previously executed a master agreement but possess the necessary qualifications to perform the work and agree to execute a master agreement before award of a job order." By failing to solicit all possible ship repair sources the second portion of the DFARS policy was overlooked.

**Action Taken:**

(1) Prior to receipt of the DODIG draft report, FISCSI Code 200, FISCSI Bahrain OGC counsel and staff from Norfolk Ship Support Activity (NSSA) met to discuss the competition requirements of the Competition in Contracting Act (CICA) and DFARS 217.7103-3.

FISCSI Code 200 has undertaken a revision of 1) the local ship repair policy memorandum and 2) the local Master Agreement for Repair and Alteration of Vessels (MARAV) policy memorandum. In furtherance of this revision, the Fleet team lead from the Naples detachment was detailed on 01 October 2010 to specifically research, rewrite and provide subsequent training on these two policy memoranda. The revised policy will be issued by 31 March 2011. It will clearly explain the appropriate competition requirements and processes for all ship repair orders, including those under MARAV agreements. Training on the revised policy will be completed by 15 April 2011.

(2) Prior internal and external reviews indicated a clear lack of understanding at all detachments and sites of the full requirements of the CICA, to include publicizing requirements, competing requirements and adequate documentation/rationale for failing to utilize full and open competition. As such, internal training on the requirements of CICA - to include publicizing, appropriate exceptions and appropriate documentation of CICA exemptions - is planned for delivery to all detachments and sites by 31 March 2011.

Our target completion date for all corrective actions for Recommendation A.1 is 15 April 2011.

**Recommendation:**

2. Update the Commander, Service Force Sixth Fleet/Naval Regional Contracting Center, Instruction 4280.2A, "Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement and Agreement for Boat Repair," October 24, 2002, to require Fleet Industrial Supply Centers to conduct market research to identify potential new contractors.

**Navy Comment: Concur with the recommendation.**

As previously identified in our response to Recommendation A.1, FISCSI Code 200 has undertaken a revision of the Master Agreement for Repair and Alteration of Vessels (MARAV) policy memorandum. The need for an updated policy had already been identified as a result of several internal reviews. The

ordering process in place under the 2002 policy was clearly not providing adequate attention to the underlying business basis for various actions that were being undertaken. For example, multiple market research reports were prepared and processed for all MARAV job orders, yet actual market surveys, contact with potential offerors, and robust endeavors to ensure all viable vendors were contacted and developed for maximum competitive benefit to accrue to the government was not occurring. In short, the requirement to prepare and process a market research report for each job order consisted of little more than a "cut and paste" of the same information repetitively for each order.

Action Taken:

An individual has been temporarily assigned within the FISCSI Code 200 Policy Division with the principal responsibility of revising the MARAV job ordering policy. This assignment occurred on 01 October 2010, and will continue through 31 May 2011. This individual is conducting meaningful market research and will provide thorough documentation of this market research at a centralized level. The ship repair market in the areas in question is somewhat static, and does not change substantially over time. However, the working level distractions associated with document generation to meet the process requirements can be overcome by a centralized billet whose focus is strategic and business oriented to ensure that maximum business benefits accrue to the government during the ordering process. This revised process will also provide for the elimination of repetitive paperwork at the working level (resulting from largely static market forces), and allow the placement of job orders to ensure the independent government cost estimate (IGCE) is meaningful, and engage in appropriate negotiations and price analysis for each individual order. The revised policy will be issued by 31 March 2011.

Our estimated target completion date for completing all corrective actions for Recommendation A.2 is 31 March 2011.

Recommendation:

3. Perform a review of contracting officers' actions related to limiting competition for contracts N49400-07-G-A501-7081, N49400-07-G-A501-8038, N4940007-G-A501-8139, and N49400-07-G-A501-9045, N49400-03-H-A005-6002, N4940003-H-A005-6007, and N49400-07-G-A600-7001, and as appropriate initiate administrative action.

**NAVY Comment:** Concur with the recommendation.

**Action Taken:**

All of the subject contracts have been reviewed in relation to limiting competition. Our corrective administrative actions in response to Recommendations A.1 and A.2 should preclude further inappropriate limitations to competition.

Our estimated target completion date for completing all administrative corrective actions for Recommendation A.3 is 15 April 2011.

**Finding B. Improvements Needed for Determining Price Reasonableness**

**Recommendation:**

B.1. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, direct the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai to require the contracting officers to document fair and reasonable price determinations for all future contract actions with price changes as required by Federal Acquisition Regulation 15.406-3, "Documenting the negotiation," or Federal Acquisition Regulation 13.106-3, "Award and documentation."

**Navy Comment:** Concur with the recommendation.

FISCSI Code 200 had previously noted via internal reviews that fair and reasonable price determinations at all detachments and sites have not met applicable standards.

**Action Taken:**

(1) FISCSI Code 200 has procured a five-day price analysis course from a respected commercial vendor which is scheduled for delivery 24-28 January 2011. This course can be lightly tailored to meet the specific needs of FISCSI, and as such the vendor has been asked to focus a portion of course content on the use of IGCE's as a method to establish price reasonableness. Additionally, the vendor has been asked to dedicate additional course content on conducting price analyses of ship repair proposals when the IGCE provided cannot be used to establish price reasonableness.

(2) On 15 November 2010, FISCSI Code 200 implemented a requirement to perform mandatory second level reviews of all procurement transactions. This implementation occurred via the removal of release authority in the procurement desktop defense (PD2) automated contract writing system except for the team lead positions. This mandate requires all team leads review every procurement transaction to identify any quality issues associated with the fair and reasonable price determination. Implementation of this second level review along with providing the specific targeted training will help ensure all price determinations are fully documented and determined to be reasonable in accordance with procurement regulations.

Our estimated target completion date for completing all corrective actions for Recommendation B.1 is 31 January 2011.

**Recommendation:**

B.2. We recommend that the Commanding Officer, Norfolk Ship Support Activity Detachment Bahrain, review the methodology for developing independent government cost estimates to determine that they include sufficient supporting documentation for the original estimates and any change to the estimates.

**Navy Comment:** Concur with the recommendation.

**Action taken:**

In January 2010 the NSSA Detachment Bahrain provided training on developing independent government cost estimates to the surveyor's using the Joint Forces Maintenance Manual format for specifications.

Corrective actions are considered complete for reporting purposes.

**Finding C. Insufficient Contract Surveillance**

**Recommendations:**

C.1. We recommend that the Commanding Officer, Fleet and Industrial Supply Center, Sigonella, require that the Fleet and Industrial Supply Center, Sigonella Detachment Naples, and its Detachments in Bahrain and Dubai:

- a. Designate contracting officer's representatives on all current and future ship maintenance and repair contracts using a

designation letter containing all of the elements in Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information 201.602-2, "Responsibilities."

**Navy Comment: Concur with the recommendation.**

It is noted that the current Defense Federal Acquisition Regulation Supplement (DFARS) subpart 201.602-2 does not require appointment of a Contracting Officer's Representative (COR) for all contracts, rather only those contracts for services. In accordance with a Naval Sea Systems Command (NAVSEA) opinion, ship repair has been properly designated as a "supply" contract in lieu of a "service" contract. This implies the use of a COR is not a requirement for ship repair contracts, but rather a matter of judgment. Nevertheless, FISCSI Code 200 had previously ascertained ship repair contracts are of such a critical nature, the use of a COR is appropriate. The requirement for the appointment of a COR in all ship repair contracts will be an element of the aforementioned local ship repair policy memorandum and local Master Agreement for Repair and Alteration of Vessels (MARAV) policy memorandum rewrites which will be concluded by 31 January 2011.

Action Taken:

(1) On 23 November 2010, FISCSI Code 200 implemented a database to track all contracts - including ship repair contracts - where a COR is designated. This database's Standard Operating Procedure mandates entry of all requirements associated with the use of a COR, including proper documentation of COR training requirements, issuance of a designation letter, and annual review meetings between the Contract Administrator and designated COR. Initial data entry into this database has commenced with an estimated completion date of 30 December 2010.

(2) The revised ship repair and MARAV policies, with an estimated target completion date of 31 January 2011, will also include a standardized process for ensuring appropriate inspection and acceptance documentation for all ship repair transactions is obtained from the COR during review meetings or prior to the conclusion of the contract (whichever is first), and included in the official contract file to ensure full compliance with the inspection and acceptance processes outlined in FAR Part 46 ("Quality Assurance").

Our estimated target completion date for completing all corrective actions for Recommendation C.1.a is 31 January 2011.

b. Require that all designated contracting officer's representatives receive required contracting officer representative training.

**Navy Comment:** Concur with the recommendation.

CORs will be required to complete COR training prior to appointment. The contract tracking database will be annotated with the COR training completion dates.

Corrective actions are considered complete for reporting purposes.

c. Require that contracting officer acceptance of supplies and services be performed in accordance with the FAR on current and future contracts.

**Navy Comment:** Concur with the recommendation.

The revised ship repair and MARAV policies, with an estimated target completion date of 31 January 2011, will also require the inclusion of the Contract Administration Plan (CAP) in all ship repair contracts. The anticipated language pertaining to the COR's receipt and acceptance procedures for incorporation in the revised MARAV is underlined.

Our estimated target completion date for completing all corrective actions for Recommendation C.1.c is 31 January 2011.

**Recommendation:**

C.2. We recommend that the Commanding Officer, Norfolk Ship Support Activity Detachment Bahrain:

a. Develop a standard operating procedure outlining the organization and documentation required for the surveyor files.

b. Require the surveyors or other designated contracting officer's representatives to maintain files on all current and future contracts that contain all of the required reports in the specifications and sign surveillance reports.

**Navy Comment:** Concur with the recommendation.

As noted above NSSA Detachment Bahrain is assisting FISCSI on the rewrite of the local ship repair policy memorandum and the

local MARAV policy memorandum. This policy memorandum will include a standardized process for ensuring appropriate inspection and acceptance documentation for all ship repair transactions is obtained and does comply with FAR Part 46. NSSA Detachment Bahrain is in the process of commencing training personnel for COR certification.

Our estimated target completion date for completing all corrective actions for Recommendation C.1.c is 31 January 2011.

**Recommendation:**

C.3 We recommend that the Director, Military Sealift Fleet Support Command, require the port engineer or other designated contracting officer representatives to maintain files on all current and future contracts that contain all of the required reports in the specifications and that this information be retrievable and traceable to the contract surveillance requirements.

**Navy Comment:** Concur with the recommendation.

**Action Taken:**

The Military Sealift Fleet Support Command (MSFSC) developed and implemented Standard Work Item (SWI) 004, Testing and Quality Assurance (Attachment A). SWI 004, paragraph 7.2 describes the Test & Inspection Record (TIR) to be maintained for each work item. SWI 004, paragraph 7.7 requires a copy of all records as defined by paragraph 7.2 to be submitted to the Contracting Officer within ten (10) days of contract completion. In accordance with FAR 4.805 MSFSC Contracting maintains records (and related records or documents, including successful proposals) for a period of 6 years, 3 months after final payment. MSFSC N7 has been tasked with monitoring the proper usage of all Standard Work Items.

Corrective actions are considered complete for reporting purposes.

**Finding D. Contract Actions for \$4.1 Million Were Incorrectly Funded**

**Recommendation:**

D.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Initiate a preliminary review of the potential Anti-deficiency Act violation within 10 days to determine whether a violation occurred.

b. Complete a preliminary review within 90 days as required by DOD Regulation 7000.14-R, "DOD Financial Management Regulation," volume 14, chapter 3, "Preliminary Reviews of Potential Violations," and provide the results of the preliminary investigation to the Office of Inspector General.

**Navy Comment:** Concur with the recommendation.

**Action taken:**

FISCSI completed a review of the facts and circumstances of the ship maintenance contracts in question prior to the release of the draft DODIG Report.

ASN (FM&C) will take the necessary action to direct a preliminary investigation with the appropriate command in accordance with the timelines prescribed in the FMR Volume 14, Chapter 3.

Our estimated target completion date for completing all corrective actions for Recommendation D.1. is 22 February 2011.

**Recommendations:**

D.2. We recommend that the Commanding Officer, Fleet and Industrial Supply Center Sigonella, require that the Fleet and Industrial Supply Center Sigonella, Detachment Bahrain, and the Fleet and Industrial Supply Center Sigonella, Detachment Dubai:

a. Require contracting officers to obtain legal counsel reviews for contractual matters for more than \$100,000 and ensure that the contract file reflects the counsel's decision in accordance with the Naval Supply Systems Command Instruction 5801.1, "Referral of Contractual Matters to the Office of Counsel," September 8, 2009.

**Navy Comment:** Concur with the recommendation.

Instructions for referral to legal counsel are provided in NAVSUPINST 5800.1 (Referrals to Offices of Counsel) dated 16 September 2009 (See Attachment B), NAVSUPINST 5801.1 (Referral of Contractual Matters to the Office of Counsel) dated 8

September 2009 (See Attachment C), and FISCSIINST 5801.1 dated 17 August 2009 (See Attachment D).

The FISCSI Code 200's implementation of a centralized database for tracking the various actions referenced in the response to Recommendation C.1 also requires all legal reviews to be tracked in this database. When a transaction is submitted to legal for review, the Contract Specialist will input the transaction into the database. Following a legal review, the database will be updated with any comments from this review. The database will be queried and cross-checked periodically to ensure all contracting actions are receiving a proper legal review. Corrective actions are considered complete for reporting purposes.

b. Verify that the contracting officers document in writing that funds are available before awarding contracts.

**Navy Comment:** Concur with the recommendation.

Contract actions associated with Finding D were executed in 2005 and 2006, prior to the implementation of a standardized process for funds acceptance specified by the Commander, Fleet and Industrial Supply Centers (COMFISCS) (See Attachment E). This process requires funds to be officially accepted by the COMFISCS Comptroller office. Reference to the official acceptance documents and dates is a requirement for all pre-award clearance documentation, for simplified acquisition procedures (SAP) and large contracts. As such, the requirement to verify that funds are available in writing has been in place since mid-2006.

Corrective actions are considered complete for reporting purposes.

c. Perform a review of contracting officers' actions related to missing documentation and potential funding violations for contracts N49400-03-H-A005-5002, N49400-03-H-A005-6002, and N49400-03-H-A005-6007, and as appropriate initiate administrative action.

**Navy comment:** Concur with recommendation.

Action Taken:

1. FISCSI is in the process of reviewing these contracts for the possibility of potential Anti-Deficiency Act violations.

Any potential violations will be reported in accordance with the Department of Defense Financial Management Regulation Volume 14, Chapter 3 ¶030101. The Chief of the Contracting Office will await a full response from ASN (FM&C) before determining if further administrative action is warranted.

Our estimated target completion date for completing all corrective actions for Recommendation D.2.c is 31 March 2011.

**Recommendation:**

D.3. We recommend that the Commanding Officer, Norfolk Ship Support Activity Detachment Bahrain correct the funding for half of contract N49400-03-H-A005-5002 and all of the modifications on contract N49400-03-H-A005-6007 with the appropriate fiscal year funds, if available.

**Navy comment:** Concur with recommendation.

NSSA and NSSA Detachment Bahrain recognize the potential impact of this finding and are working with FISC Bahrain and USFF (NOOF) to identify appropriate FY 06 funds to correct the funding impropriety identified.

Our estimated target completion date for completing all corrective actions for Recommendation D.2.c is 30 September 2011.

USNS Anyship  
(T-XXX X)

**GENERAL REQUIREMENTS**

RFP NO. N40442-08-R-XXX

26 APR 2010

ITEM NO. 004

Category "NSP"

MSFSC/STD004/REV 1

**TESTING AND QUALITY ASSURANCE**

**1.0 ABSTRACT**

- 1.1 This item requires that the Offerors and Contractor have in place an effective Quality Assurance Program and that such program be implemented in the planning and performance of this contract.

**2.0 REFERENCES**

- 2.1 MIL-I-45208 (series), Inspection Systems

**3.0 ITEM LOCATION/DESCRIPTION**

- 3.1 Performance of Quality Assurance at the Contractor's facility.

**4.0 GOVERNMENT FURNISHED EQUIPMENT/MATERIAL/SERVICES:** None

**5.0 NOTES**

- 5.1 The Government may at any time without prior notification to the Contractor elect to obtain the services of Government Furnished Technical Representative(s) who will be on site at the Contractor's facility acting as the Government's Quality Assurance observer and consultant. The presence of Government Furnished Technical Representative(s) does not relieve the Contractor from performing any part of this work item.

- 5.2 The contractor and all subcontractors regardless of tier shall consult the General Technical Requirements (GTR) to determine applicability to this work item. In performance of this work item, the contractor and all subcontractors regardless of tier must comply with the requirements of all applicable GTRs including but not limited to GTRs (1) through (7).

**6.0 QUALITY ASSURANCE REQUIREMENTS**

- 6.1 The Government reserves the right to perform a Pre-award Survey of the Apparently Successful Offeror's facility, during which survey an inspection of the in place Quality Assurance system's performance attributes in all areas may be subject to examination and review.

- 6.2 Offerors, and the successful contractor, are herewith notified that Regulatory Body and MSC inspections are independent of the contractor's function of Quality

004-1

Attachment A

USNS Anyship  
(T-XXX X)

**GENERAL REQUIREMENTS**

RFP NO. N40442-08-R-XXX

26 APR 2010

ITEM NO. 004

Category "NSP"

MSFSC/STD004/REV 1

**TESTING AND QUALITY ASSURANCE**

Assurance. The contractor is not to rely upon MSC or Regulatory Bodies or their agents to perform it's quality assurance inspections or tests.

**7.0 STATEMENT OF WORK REQUIRED**

**7.1 CONTRACTOR INSPECTION SYSTEM REQUIREMENTS**

**7.1.1 QUALITY ASSURANCE PLAN/MANUAL**

7.1.1.1 The Contractor shall document his inspection system, identifying the method of implementing the requirements contained herein. Implementation of the Contractor's System shall be through a Quality Assurance Plan or Manual. The Quality Assurance Plan or Manual will be approved for use by the Senior Shipyard Official and shall be available for review by the Government prior to the initiation of productive work. It shall meet the requirements of reference 2.1 or 2.2 as a minimum including:

- a. A functional organization chart showing overall company management.
- b. The quality assurance organization.
- c. A description of the Contractor's Quality Control System.
- d. The assignment of specific responsibility for the following elements of Quality Control including written procedures specifying the methods of implementation;
  - i. Performance and witnessing of tests and inspections.
  - ii. Preparation and maintenance of records.
  - iii. Control of non-conforming material.
  - iv. Corrective action system.
  - v. Receipt inspection.
  - vi. Subcontractor control.

**7.1.2 TEST & INSPECTIONS**

004-2

**USNS Anyship**  
(T-XXX X)

**GENERAL REQUIREMENTS**

**RFP NO. N40442-08-R-XXX**

**26 APR 2010**

**ITEM NO. 004**

**Category "NSP"**

**MSFSC/STD004/REV 1**

**TESTING AND QUALITY ASSURANCE**

**7.1.2.1** Inspection personnel shall be qualified to perform the duties assigned and authorized to make an accept/reject determination for the Contractor.

- a. Submit a list of Contractor personnel authorized to witness, and accept the sign off inspection and tests listed on Contractors Test & Inspection Records (TIR's). Include personnel title/position in corporate structure.
- b. Submit a list of subcontractor firms which are authorized to independently witness, accept and sign off inspections and tests listed on TIR's on behalf of the Contractor. Identify each authorized subcontractor firm by name and address, by work item number, paragraph(s), and sub paragraph(s) which the subcontractors are to accomplish. The identification shall be as broken down in the statement of work for that work item and the production planning document prepared for the Contractor's Offer and this Contract.
- c. Lists of contractor and subcontractor personnel shall be submitted as part of the offered solicitation's technical proposal. Lists shall be amended as changes in personnel or subcontractors occur. Changes shall be subject to approval of the Contracting Officer (PCO prior to award or ship delivery/ACO (COR) after delivery) in accordance the Clause H-11 "substitution of personnel".
- d. The Contractor shall verify that all tests, inspections and work conform to contract requirements prior to presentation to the MSREP for acceptance. In the event that specific criteria are not provided in the work item, the contractor shall verify that the tests, inspections or work meet Regulatory Body Requirements (ABS, USCG etc.) prior to presentation to the MSREP for acceptance.

**7.1.2.2** Final determination of acceptability shall be made by the MSREP.

004-3

USNS Anyship  
(T-XXX X)

GENERAL REQUIREMENTS

RFP NO. N40442-08-R-XXX

ITEM NO. 004

Category "NSP"

26 APR 2010

MSFSC/STD004/REV 1

**TESTING AND QUALITY ASSURANCE**

7.2 DOCUMENTATION

7.2.1 Contractor Inspection Records

7.2.1.1 The Contractor shall prepare a Test & Inspection Record (TIR) for each specification item in the contract which requires productive work. TIR's shall be developed for each specification work item or change prior to productive work being accomplished for that item. TIR's at a minimum shall, include the following:

- a. Identification by Solicitation/Contract Number, Ship name and Government Work Item Number.
- b. Identification of each unit to be inspected by name, number, and location (e.g. Number 2 SSTG, Port Condenser, Cargo Winch Number 12, etc). Where multiple units are contained within a work item, an entry on the TIR shall be made for each unit.
- c. The listing of each specific inspection attribute, method of inspection or test and the acceptance/rejection criteria.
- d. Acceptability or rejection of each inspection attribute shall be indicated and shall be signed and dated by authorized personnel.
- e. All TIR's shall be updated as work progresses and maintained current to within twenty-four (24) hours.

7.2.1.2 Test and Inspection Records (TIR's) are also required for all work associated with:

- a. All Pre-priced Option Items (at the lowest line item level) which are activated by Change Orders.
- b. All Change Orders issued, whether within the amount of man-hours contained in the clause h-5 "Additional

Final Report  
Reference

**STANDARD OPERATION PROCEDURES FOR CONFISCS**

**REQUESTS FOR CONTRACTUAL PROCUREMENT (RCP)**

**Subject: SOP for RCP Process**

**From: CONFISCS, Comptroller, Director of Financial Services**

**Encl: (1) RCP Cover Sheet Instructions/RCP Coversheet  
(2) RCP Process for Contracting Officers  
(3) Search Direct RCP Documents**

1. **Purpose:** This SOP describes the general operating procedures for managing the process of conducting financial reviews and approvals of Direct Cite Request for Contracting Procurement (RCP) received by NAVSUP field activities and provides instructions on how to process your documents.

2. **Concept of Operations:** The key to performing timely reviews is to minimize the manual steps required and automate the procedures wherever possible. Additionally, the global nature of the process and the diverse customer basis of submitting activities require the need for simplicity. The RCP database is utilizing and building on the capabilities of e. POWER software, which require RCP requests to be forwarded by FAX to a designated phone number, emailed to a designated email address listed and/or electronically through the Internet to the applicable email address which is listed on the coversheet.

Once the coversheet, and supporting documents are processed into WebOTF, an intelligent agent will automatically take incoming requests, create electronic folder for each request in e.POWER, index data as appropriate, insert the documents into the folder and process the request into the workflow process. The electronic folder will be established for a specific queue basket depending on the contracting office (identified on the coversheet). The designated financial analysts will retrieve the folder from this specific queue basket and perform the financial review of the RCP request.

Because of the various queue baskets, this provides management personnel the capability to view documents and assign workload and provides a great tool for planning work and more importantly, allows us to meet your RCP requirements in a most timely manner.

The financial review will be prioritized based on the geographic work schedules of the contracting office based on applicable time zones, such as, east coast requirements are worked prior to west coast time zones from 0600-0730 each day. The financial

We omitted a portion of the attachment due to length. The attachment included the Naval Supply Systems Command Instruction 5800.1, Naval Supply Systems Command Instruction 5801.1, and the FISCSI Instruction 5801.1.

Attachment E

reviewers have the capability to annotate comments, perform additional indexing if needed, direct the routing to any of the included NAVSUP Contracting activities as indicated on the coversheet and/or funding document, and other functions as may be identified. When approved, an acceptance copy (with electronic signature applied) will automatically be generated and returned to the submitting activity. An email or FAX notification will be sent advising of the action taken. Action taken, time/date and reviewer will be automatically documented in the folder and it will be routed to the appropriate contracting activity for action. Re-routing paths will provide the ability to pass RCP folders from one Contracting Activity to another if initial routing is not correct.

All folders will remain resident on the NAVSUP WebOTF database for audit purposes and analysis of workload, processing timeframes to ensure your requirements are being processed in a timely manner.

3. **System Functions:** System data back-ups shall be performed to allow system restore and disaster recovery. Several incremental back-ups will be performed daily Monday through Friday, except Federal holidays, to capture changes in the data from intra-day transactions. Full system tape back-ups will be done nightly, weekly and monthly to allow full system recovery in the event of a catastrophic failure. The weekly and monthly back-ups will be housed securely off-site.

With the exception of normal system maintenance, it is anticipated that the Direct Cite RCP Review and Acceptance process will be operational 24/7. If the system becomes unavailable, the system will be restored within 8 hours.

In the case of a failure that requires hardware replacement or repair, NAVSUP will be notified within one business day of determination of the problem, and provided the recommended action to resolve the problem.

For emergent documents that require immediate action or cannot be processed through the normal WebOTF process, the FISC Liaison Staff located at each FISC will have the authority to accept Direct Cite documents. At the most convenient time, these documents will be archived to the WebOTF database.

4. This SOP is effective as of 14 November 04 until superseded.

#### **RCP Cover Sheet Instructions**

**Do not handwrite** on the RCP Cover Sheet - Because an electronic OCR reader is reading this document into a fax server. All fields should be populated.

1. **Document Directive Number:** Do not put any spaces or dashes in between document numbers. Example: N0002404RCAB001
2. **Amendment Number:** Do not write any words in this field. It must be a five digit numeric number. Example: Basic Document - 00000 Amendment Document - 00001.
3. **Document/Directive Type:** Must select one of the options from the drop down menu. All computer-generated forms that are electronically approved must be approved by FMR. If you have a computer-generated form that was approved and replaces the NAVCOMPT 2276 and NAVCOMPT 2276A, you must choose NC 2276 on the drop down menu.
4. **Amount:** Do not use any parenthesis, dollar signs in amount. Example: 123,111.00 For Negative amounts, type the following: -123,111.00
5. **Route to FISC Contracting Office:** Do not type in this field. Choose a contracting office from the drop down menu. Ensure you choose the FISC who will be issuing your contract.
6. **Urgency:** Select from the drop down menu. Only select urgent, when you need a item and/or service within four (4) hours. Example: Ship will be deploying and they need a item and/or service to deploy.
7. **NMCI Related:** Click in the box. You will only check yes, when it is a NMCI requirement.

#### **Activity Information:**

8. **Activity Name:** Type Activities name on funding document. Example: Navy Region.
9. **Activity Address:** Type Activity address located on funding document.
10. **Financial Point of Contact (POC):** Type name of financial POC activity
11. **POC E-mail Address:** Type Financial POC's email address.

**RCP Cover Sheet Instructions (Continued)**

12. **POC Fax Number:** Type Financial POC's fax number. Must be commercial phone number. Do not use parenthesis.  
Example: 312-238-8888
13. **POC Phone Number:** Type Financial POC's phone number. Please type your DSN number, if available. Example: 522-2324 Do not type DSN in front of number.
14. **Sent Acceptance/Rejection to:** Select either fax or email address from drop down menu.

**FAX Instructions:**

1. Fax RCP Cover Sheet, funding document, statement of work, and justification to (703) 378-2879. Please ensure the description is adequate for us to make a determination if all complies with Time, Purpose, and Amount.
2. If you have received an OK from your fax machine, the document has been confirmed. Please don't resubmit document if you have received an OK from the fax machine.

**EMAIL Instructions:**

1. Email RCP Cover Sheet, Funding document, statement of work and justification to RCP@WebOTF.org. On your subject line, type "RCP Cover Sheet".

Encl (1)

**RCP Process for Contracting Officers**

1. Log into WebOTF through the Internet. URL is:  
<http://www.webotf.org>
2. Click on RCP Contract Queue.
3. Find your funding document, if you know what was assigned to you. Click on funding document (It will be highlighted in Blue). This will open the document and bring you to the RCP coversheet.
4. Click on related docs.
5. This will bring another area with a list of documents. The RCP cover sheet is usually the last document listed. Click in the box on the document you want to view.
6. Scroll down and click view. This will open the document in Acrobat.
7. Select Print. To close out Acrobat, click the x at the top and it will close it out.
8. Click on In basket.
9. Find your document. Scroll down to the right and find the Workflow path. Under that box, click on Approve and check the box next to the right.
10. Click on process. This will exit the document out the workflow.

You need to ensure you clear out your baskets daily. If any amendment comes in while you have the basic or any other amendment still in the workflow, this will cause this document to go into Triage or put on hold until the prior document has exited out of the workflow.

Encl (2)

### **Search Direct RCP Documents**

In WebOTF, you need to select the search capability from the top menus.

1. Click on Document (Gray Tab at the top of the screen).
2. Scroll down to Search Direct RCP. Type in what you want to search. You can search by document number, dollar amount, etc. You can search on one field or many fields. Once you type in your field, click search.
3. This will bring you a list of documents of what was found. To view a document, click the box next to the document number.
4. Click on Workflow History, if you want to see where your document is in processing.
5. Click on View to review the cover sheet.
6. Click on Related documents, if you want to pull up a copy of the cover sheet, funding document, or acceptance.

If your document is in triage, you will not be able to search by document number. You can try to search by dollar amount or location if these areas are populated through the system.

If you can't locate your file through the search capability within 1 hour, please contact the following personnel:

Lead Financial Analyst:

Email: [REDACTED]

Supervisor, Financial Analyst:

Email: [REDACTED]

Division Director:

Email: [REDACTED]

Encl (3)





# Inspector General Department of Defense

